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# ***JPRS Report***

## **China**

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# China

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## NATIONAL AFFAIRS, POLICY

### Financial Difficulties for State Enterprises

HK2010050091 Beijing JINGJI GUANLI in Chinese  
No 8, 5 Aug 91 pp 8-12

[Article by Tian Xinyi (3944 2946 3015), edited by An Luming (1344 6424 2494): "Suggestions for Overcoming Financial Difficulties"]

[Text] I am an experienced financial cadre with a long-time exposure in banking, statistics, financial, and taxation work. I also worked for several years as a deputy director of an oil refinery. With my work experience, I felt that Comrade Mao Zedong was not only a great politician, militarist, and poet, he also had resourceful financial thoughts. For example: he proposed "developing production, and safeguarding supplies"; put forward that while "an economy determines financial affairs, financial matters affect the economy"; proposed "spending 95 percent of our strength on helping the masses develop production and 5 percent on collecting taxes from the masses"; and he put forward "the proportions for agriculture, light industry and heavy industry", "relations between coastal areas and inland areas", and "relations between the central authority and local authorities" in his work "On Ten Major Relations," as well as the principles of practicing thrift, building up the country through thrift and hard work, and handling all causes in a thrifty manner. Today, these remain as the basic guiding ideology and basic principles for our financial work. Mao Zedong's financial thought was formed over a long period of revolution and construction, and was the product of the collective wisdom of the whole party. The financial thinking of veteran proletarian revolutionaries such as Zhou Enlai, Liu Shaoqi, Deng Xiaoping, Chen Yun, Li Xiannian, Bo Yibo, Li Fuchun, and so forth was, and still is, a part, as well as the manifestation, of Mao Zedong's financial thought.

Nevertheless, in our actual economic life, and in our specific economic work, we did not conscientiously follow this guiding ideology so that some unhealthy phenomena occurred. For example, originally an economy determined financial affairs and financial matters helped boost the economy. However, why was it that the financial difficulties intensified when the economic situation improved? Why was it that while people's living standards in a prosperous and powerful country had been much improved, that country's financial situation was heavily in deficit? Furthermore, there was the issue concerning economic results. Though we had repeatedly urged improving the economic results beginning in 1980, why was it that the economic results dropped in successive years? Problems like these are theoretical ones yet should be promptly studied. They are major topics urgently needing solutions.

According to Mao Zedong's financial thought, and based on my experience gained in actual work, I believe that the fundamental way to get rid of financial difficulties is

to broaden the sources of income, reduce expenditure, develop production, try all means to improve the economic results, and to expend major efforts on reform. For this reason, I put forward some suggestions on intensifying reforms, improving economic results, and overcoming financial difficulties.

#### I. Replace Existing Simple Budgeting System With Double Budgeting and Open It to the Public

Comrade Mao Zedong said: "National budgeting is a major issue which reflects the policies of the whole country because it puts limits on the scope and direction of government activities." This remark was made in the early days following the founding of the state. At that time, we practiced controlled purchase and disbursement, so that various kinds of economic activities were reflected in the budget. However, things have now undergone great changes and the situation of practicing controlled purchase and disbursement no longer prevails. The financial strength is decentralized and the situation is complicated in such a way that it is very difficult to reflect the actual situation by following the past system of simple budgeting. When the actual situation could not be reflected, it was inevitable that the leadership would make mistakes in making decisions. This was clearly illustrated by the fact that "nine out of 10 years were in the red." In most cases, our budget used nominal revenue to settle actual expenditure, excessively collected revenue and paid expenditures, and included a large sum of hidden financial deficit. Originally, national budgeting is a way of redistributing part of the national income collected by the state in a noncompensatory way using state power. The compensatory part includes financial credit, called the national credit, which is not a form of revenue. Nevertheless, we took debts as part of the revenue and added them to our noncompensatory revenue. Such method of calculation concealed the actual financial difficulties and sharply reduced the amount of deficit. Furthermore, there were so-called deficits on the books—a party to an economic act was unable to make payment after such act has taken place, so that such amount was temporarily put in the books and would be settled when the party had cash. But this amount was not reflected in the final accounts. For instance, in the process of purchasing grain from peasants, we received grain and stored it in our granaries but we had no cash to make payments. We gave debit notes to the peasants and any payment that was not settled through financial expenditures was not regarded as an expenditure. Likewise, though some enterprises incurred losses because of policies and needed prompt financial allocations from the state, such allocations were eventually put on the books just because the state finance was unable to allocate funds. As such allocations were not made from state finances, it seemed that nothing had ever happened. As a result, there was a great difference between the book value and the actual economic situation. It was reported that in 1989, these amounts in the books totaled 49.9 billion yuan. If we add that to the deficit amount, the 1989 deficit totalled 86.8 billion

yuan, or 28.7 percent of total expenditure. This of course included payments receivable. The actual figure might be higher. I always believed that it is better if we reflect the actual situation. In addition, the central authority used the financial balance of local authorities to offset its deficit when the amount became very large. In fact, however, it was unable to transfer such financial balances from the local authorities. Consequently, the financial difficulties were further concealed. If we also add such figures to the deficit, the amount would be much larger. When everyone realizes the actual financial deficit, and achieves a common understanding, this will naturally boost their sense of being in a crisis, their sense of urgency, and their sense of responsibility.

Therefore, I suggest: We should popularize the double budgeting system as quickly as possible, distinguish noncompensatory from compensatory revenue, strictly separate the central budget from local ones, and replace the realized receipt-payment system with the accrual system; so that the financial budget and final accounts could really reflect the economic acts.

## **II. Adopt Comprehensive Financial Structure and Reform the Existing Management System for Nonbudgetary Funds**

Prior to reforming the financial system in 1979, we adopted two separate channels for revenue and expenditure and almost all revenues and expenditures were reflected in the state budget. Following reforms in the financial system, after we enlivened the economic sector by taking a relaxed attitude; after we reduced the taxes on profits, however, institutions ran their businesses like enterprises. A considerable portion of budgetary funds became nonbudgetary ones so that the amount of non-budgetary funds sharply increased. A single budget was gradually replaced by two budgets, commonly called budgetary funds and nonbudgetary funds. The budgetary funds had to be submitted to the corresponding people's congresses for approval, whereas the nonbudgetary funds were used by the corresponding locality or department based on their decisions. According to statistics, in 1979 when we started our reforms, the amount of China's nonbudgetary funds was only 45.3 billion yuan, or 42.2 percent of the budgetary funds. In 1989, it had risen sharply to 265.9 billion yuan, or 87.7 percent of the budgetary funds. Between 1979 and 1989, the amount of China's budgetary funds was increased by 1.5 times whereas the amount of nonbudgetary funds increased by 6.7 times. This, of course, not only played a substantial role in invigorating the economy but also caused serious effects. Though the planned investment sum for the Seventh Five-Year Plan was 1,296 billion yuan, our actual figure was 1,974 billion yuan, exceeding the original plan by 678 billion yuan or 52.4 percent. This was mainly because the amount of nonbudgetary investment rose so sharply that it exceeded the planned level by a large margin. The blind growth of nonbudgetary funds brought about two separate effects. On the one hand, as various departments and localities used funds in a noncentralized manner, the financial strength was

highly decentralized. The situation became so bad that it went out of control like a runaway horse and affected the state plans. On the other hand, one could not realize the actual activities of the government simply by studying the budgetary funds. Let us take education expenses as an example. These gave rise to a number of nonbudgetary funds, such as education surcharge, surcharge for the purchase of controlled commodities, subsidies for institution-run factories, miscellaneous charges, and so forth. The same applied to agricultural funds. By studying the budgetary funds, one would think that the ratio of agricultural funds to budgetary expenses as a whole was decreasing year by year. When we included other nonbudgetary funds, and revenue derived from funds that were originally available in noncompensatory form however, the ratio of such funds to the budget was sharply increased. An inflation of the nonbudgetary funds caused many disadvantages. It brought about an expansion of the investment scale, caused confusion in the state economy, pushed aside the construction of key projects, and encouraged consumption inflation.

Therefore, I suggest that we adopt a system of comprehensive budget and final accounts. Details of the system are that the existing budget should be the primary one and taken as a mandatory plan. The planned revenue must be accomplished and no extra expenditure is allowed. Existing nonbudgetary funds should be the secondary budget and should be taken as a guidance plan. The state finance must combine the primary budget with the secondary one and work out comprehensive plans before submitting their financial budgets and final accounts to the corresponding people's congresses. Only these budgets can really reflect the state's policies, manifesting the "scope and direction of government activities." This conforms to the principle that state finance is a comprehensive manifestation of an economy and the national situation in China, which is a large country. Thus, we can control without affecting the rigidity and the situation will thrive without confusion.

## **III. Link Wages to Price Levels and Reform Existing Subsidies System**

The distribution of subsidies plays a positive role in promoting the development of agriculture, as well as certain raw materials and basic industries, and in improving the people's livelihood and maintaining a stable society. Nevertheless, it seriously violates the rules of economics. Over the years, the categories of financial subsidies given by the state were many and the amount became very large. The amount of subsidies to loss-incurring enterprises, and that of price subsidies, accounted for one-third of the overall financial expenditure and was a heavy burden on state finance. At the same time, the importance of financial subsidies as an economic lever dropped sharply. Losses incurred by enterprises because of policies outweighed losses caused by poor operations, so that a certain wastage occurred. Price subsidies, which were mainly related to consumption, maintained the irrationality of the pricing system

and encouraged consumption inflation. Therefore, it is inevitable that we should reform the existing system of subsidies.

According to investigations, the current number of categories of subsidies given to residents in respect of clothing, food, housing, livelihood, travel, birth, health, and cultural (recreational) activities is more than 70. As to subsidy levels, there are subsidies governed by the state, subsidies approved by local authorities, and additional subsidies introduced by enterprises to outdo their rivals. On the nature of subsidies, there are: Straightforward subsidies which are added to the wages, such as grain subsidies, nonstaple food subsidies, laundry subsidies, and so forth; and some are disguised subsidies, which are used to offset losses incurred in the production and circulation processes, or losses incurred by public utilities, which are usually unknown to the public. Judging from economic activities, at present, subsidies are required in almost every process: That is, production, circulation, distribution, and consumption. From the results of subsidies distribution we see that the amount of losses incurred by enterprises becomes larger and larger; people are demanding more subsidies relating to their livelihood; and the financial burden on the state has become so heavy that it has reached an intolerable level.

In view of the above situation, I suggest: First, we must make proper use of the role of subsidies. Subsidies should be taken as a means of economic readjustment rather than a form of distribution. Subsidies should be distributed for the purpose of promoting industrial development, readjusting the composition of industries, and boosting supplies, rather than for compensation and consumption. Second, we should readjust policies governing subsidies. We must resolutely and promptly stop distributing subsidies to offset losses caused by poor operations. We should also limit, reform, and minimize subsidies distributed for losses caused by implementation of policies, so that subsidies will be given mainly to encourage production of goods in short supply and for developing weak economic processes. Third, we should impose strict control on the categories of subsidies and we must seriously straighten out the distribution scope of subsidies. We should limit the amount of financial subsidies to the level acceptable to the state finance. Fourth, we must prefer straightforward subsidies over disguised ones regarding people's livelihood. We should gradually include subsidies as part of the wages and link wages to the operational results of enterprises. Therefore, the wages will really indicate the extent of responsibility and contribution of a worker and we could put an end to the situation whereby the amount of wages, bonuses, subsidies, and welfare increases irrespective of the operational results of the enterprise in question. We should appropriately readjust the financial subsidies while reforming the prices and wages, to really maintain their economic importance.

#### IV. Implement Separated Taxation System, Reform Existing System for Contracting Financial Affairs by Localities

In his work "On Ten Major Relations," Comrade Mao Zedong expounded on the relations between the central authorities and local ones, pointing out that we had to "conduct multilevel management." Essentially, the relationship between the central authorities and the local ones is the centralization of power by the central authorities and decentralization of power by local authorities. Whether it was prior to or after reforming, the key of such relations was on the distribution of economic interests. Its focal point was on the base, or the sharing ratio. Everyone from top to bottom contended with each other, or negotiated among themselves, to achieve a better base or sharing ratio. This was a common phenomenon and even became the focus of financial contradictions between the central and local authorities. Although the state repeatedly readjusted the financial system, it became a common phenomena that the central authorities "drew away funds" and local authorities strived to "retain the funds through either explicit or implicit means."

In 1988, the central authorities adopted various forms of system for contracting financial affairs by localities. This system promoted economic development in various areas and played a positive role in mobilizing the initiative of various local organizations for increasing their income. Nevertheless, the existing contracting system is plagued by many problems:

1. The distribution of financial strength is rather irrational. On the amount of revenue, certain departments and areas had their amount sharply increased but the profit share of the central authorities was very little. In particular, certain large enterprises invested in by the central authorities did not correspondingly increase the financial income of the central authorities despite a sharp increase in their revenue, thereby weakening the capability of the central authorities as regards macroeconomic readjustment and control.
2. To a certain extent, the existing financial system encouraged localities to carry out construction projects blindly and in duplication, which was not favorable to either readjustment of the composition of industries or to the implementation of industrial policies.
3. The expenditure base was not determined in a rational manner, so that regional differences widened. Basically, the existing system of contracting financial affairs was still made on the old base, which was advantageous to some areas but not to others. The phenomenon became so serious that most areas complained about it. If the base remains unchanged, it will be impossible for us to perfect the system.
4. There remains the situation where financial affairs, though being contracted, were not dealt with and the problem arose that both the central and local authorities

developed their projects at the expense of each other. We should therefore put an end to this situation.

In the light of China's actual situation, I suggest that we should clarify the following principles in respect of reform in the financial system:

1. It should be favorable to strengthening macroeconomic management and ensuring smooth progress in implementing state industry policies, as well as macroeconomic readjustment and control measures. It should: Help the central authorities appropriately pool together the financial strength; gradually increase the proportion of financial revenue of the central authorities to the financial revenue as a whole; and should gradually boost the capability of the central authorities as regards macroeconomic readjustment and control.

2. We should unify the leadership, implement multilevel management, seek unity of financial authorities with decisionmaking power, integrate authorities with duty and interests, and mobilize the initiative of the central and local authorities. We should establish a rational multilevel incentive mechanism to increase financial revenue, focus on and boost our potential financial strength, and devote much effort to locating financial sources, to gradually increase the ratio of financial revenue to national income.

3. We must break through the existing distribution pattern in respect of interests, conduct a new study on and determine the base for different levels of financial revenue and expenditure, and change our method by substituting the base with factors.

4. We should set up independent revenue systems for the central authorities and individuals, to put an end to the situation of interdependence and mutual exclusion and to help the government collect revenue and make expenditure arrangements, thereby mobilizing the initiative of both the central and local authorities.

Based on the above principles, I hold that the ideal goal of further reforming and perfecting the financial management system is to separate the source of revenue for central authorities from that of local ones. Taxes that are significant in terms of macroeconomic readjustment and composition of industries should go to the central authorities, thereby safeguarding the readjustment of the composition of industries as well as being a rational and effective deployment of resources by the central authorities. Taxes closely related to local authorities and are levied on trivial matters should go to the local level, thereby mobilizing the initiative of local organizations in revenue collection. Certain taxes, such as income tax and business tax, may be levied by the central and local authorities at different rates. Separate branches should be established by the state's taxation bureau and local taxation offices, so that they are subject to their respective financial supervision.

#### V. Adopt Tracking and Feedback System for Funds Use, Avoid Stressing Collection of Revenue While Ignoring Importance of Expenditure

China has never been a wealthy country and per capita income does not rank among the world's top 100 but people spent public money extravagantly. The masses called this phenomenon the "generosity of the poor" and, therefore, acts of wasting materials were found everywhere. In order to overcome this phenomenon, and to really switch the national economy onto the track of improving economic results, the financial departments should promptly put an end to the situation where they cared only about distribution but not using funds and stressed only the collection of revenue while ignoring the importance of expenditure. Beginning in 1986, Dalian City introduced a tracking and feedback system for the use of special funds.

The so-called tracking and feedback system for the use of special funds is a thorough responsibility system for the use of the state's special funds, as well as the results of such use. By way of contracting, agreements, or deeds, this safeguards that the funds are really used for the projects concerned and are handled by the responsible persons. The results of such use are reported back. Anyone who completes a project with less funds will receive a reward and anyone who causes losses will be punished. The major features of this system are as follows:

1. Stress on responsibility. Under this system, both the supplying and user units of funds were required to sign a contract indicating the person responsible for the use of such funds; the person responsible for the supply of such funds; the extent of their responsibility; the project schedule; and the expected goals. Awards or punishment would be meted out by judging the economic results and social effects [she hui xiao yi 4357 2585 2400 4135] of the project concerned against the original plan. Anyone who succeeded in using less funds or achieving excessive results through their own personal efforts would be awarded. Anyone who caused losses through fault on their part, or who failed to achieve the expected goals, would be punished.

2. Stress on feedback. Under this system, the user of the funds was required to report to the financial or relevant departments the use of funds during, and after completion of, the project concerned. This was done according to the stipulated terms and schedule. For projects that could be completed within six months, a single report was required upon completion. For projects that took more than six months to complete, a quarterly report was required. The financial departments had the right to recall, or re-allocate without compensation, any equipment purchased with the departments' special funds which had been left lying idle for more than one year or any approved special funds left unused for over six months.

3. Stress on use of funds for designated purpose. The target of tracking and control covered 14 types of funds,

including investment in capital construction, funds for tapping potential and transformation, funds for simple construction, funds for developing science and technology, urban maintenance funds, agricultural funds, agricultural circulation funds, technology loans, and so forth, allocated by state finance. Since the system thoroughly specified the responsibility regarding the funds, it guaranteed that various special funds were used for their designated purposes.

4. Stress on results. The purpose of working out this system was to thoroughly implement, specify, and express in a systematic form, the guidance of "switching the focal point of the economic work onto improvement of economic results" which was put forward by the CPC Central Committee. This put an end to the past situation where financial departments only cared about the allocation of funds but ignored the importance of expenditure or the economic results. We were thus able to use limited amounts of funds to achieve the best economic results and social effects.

5. Stress on multilevel management. Under this system, a user was required to apply for funds at a particular financial department and to report to that department. Only thus could it promote a close integration of the authorities with financial matters.

In the five years after adopting the "tracking and feedback system for the use of special funds" in Dalian City, the financial bureau signed more than 800 contracts with capital construction, environmental protection, industrial and commercial enterprises, as well as education, cultural, and public health units, involving a total investment of 560 million yuan. This included 200 million yuan of financial investment supervised by the financial departments. Projects financed by the funds were completed on schedule or ahead of schedule, thereby saving costs of more than 1.5 million yuan.

Therefore, I suggest: First, in the financial theory, we must change our practice of emphasizing distribution function and attaching importance to revenue while ignoring the importance of expenditure. The state finance governs not only the process of distribution but also the process of utilization, which is also important; awards should be meted out to anyone who uses funds in a better way. This strengthens the role of the interests mechanism in restricting the whole process of economic operations. By acting in this way, we can help change the state finance from the type which simply considers "revenue, payments, and balance," into one which focuses on the overall economic development; and we can widen the scope of our financial sources. Second, we must strictly control the financial expenditure and maintain a balanced budget. Prior to allocation of funds, we must carry out a feasibility study on the use of funds and provide a stable and reliable base for projects. After the conclusion of contracts and allocation of funds, we should keep track of, and receive reports on, the use of funds, ensuring that the funds are used for the designated

purpose. The state finance should strengthen its budgetary control by giving awards to anyone who achieves better economic results with less funds. Third, we must integrate the financial work with economic work, to closely link supplying units with user units as well as the responsible persons in those units.

#### VI. Enrich Existing Policies, Put an End to the Situation Whereby Enterprises Suffer Large-Scale Losses

Comrade Mao Zedong said: "No economy can solve financial difficulties without a base and no economy can make the financial sector prosperous without development." This was the ideology guiding our financial work during China's War of Resistance Against Japan and in the democratic revolution. I hold that this is also a suitable solution for our existing problems. At present, China's finance is encountering serious difficulties and we must solve them by developing the economy. Large and medium enterprises are important pillars of China's socialist modernizations and the major source of financial revenue. Judging from the situation in recent years, however, the economic results of large and medium enterprises across China generally dropped and there was an extremely insufficient reserve development strength. According to statistics, the amount of loss-related subsidies given to enterprises totaled 12.485 billion yuan in 1978 and 59.888 million yuan in 1989, increasing by 3.8 times. The capital-profit proportion of budgetary industrial enterprises was 25.1 percent in 1984, dropping to 19.4 percent in 1989. In particular, the problems were very serious in the old industrial bases, the figures even reducing in some cases.

I hold that this phenomenon occurred mainly because of external macroeconomic reasons, in addition to microeconomic ones concerning enterprises, and because there were problems in our financial and economic policies.

First, ideologically, we stressed construction and expansion at the expense of production, technological transformation, and internal potential. In some cases, localities and departments proceeded from their own interests, duplicated their construction project and imports, and emphasized low-level technology. This caused huge losses. According to reports by relevant departments on 56 large and medium capital construction projects, it was shown that the productivity rate of two-thirds of the projects was less than 70 percent and about one-third of the projects suffered losses soon after they were put into operation.

Second, the compensation funds of enterprises were extremely insufficient. The rates of depreciation fund, and overhaul fund, were excessively low. Together with the effect of price raises, these funds were simply insufficient to meet the needs for maintenance. The standard rate of welfare fund fixed in the 1950's was so low that it was unable to meet the needs for maintenance. Furthermore, enterprises were required to give part of their revenue to their staff and workers as living expenses and

welfare. The enterprises were thus left with little money to carry out transformation.

Third, the amount of funds owned by enterprises was extremely insufficient. It is stipulated that an industrial enterprise must maintain 70 percent of self-owned funds, whereas commercial enterprises must maintain 30 percent of self-owned funds. At present, their percentage of self-owned funds is only about 10 percent. Most of, or all, the funds needed by enterprises were bank loans. At present, the amount of bank loans granted to enterprises across China totals over 1.400 billion yuan, so that the payment of interest alone totalled more than 100 billion yuan. Many enterprises were unable to tolerate this. Together with serious entangled debts, which were worth about 100 billion yuan, it became extremely difficult for many enterprises to make any progress. In many cases, the operation of enterprises came to a halt and an abnormal situation emerged whereby debtors acted like having justice on their side, while creditors took a humble attitude toward the matter. I suggest that first, we should promptly solve problems concerning the shortage of self-owned funds, to give enterprises the strength for self-development, as well as the economic strength for expanded reproduction. The state must appropriately allocate certain advances to enterprises and promptly solve the issue of entangled debts. Second, we should strictly control new general enterprises and reduce the number of new factories. We must run the large and medium enterprises properly, improve their conditions for self-development, and boost their capability in respect of self-development and sole assumption of responsibility for profits and losses. Third, we should raise the depreciation rate and speed up the pace of technological transformation. Fourth, we must, in the work of contracting internal affairs of enterprises, set a rational contract term and base; perfect the contents of the assessment and internal distribution method; and resolutely rectify the practice of simply putting the stress on output value.

#### **Current Economic Problems, Solutions**

92CE0133A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 21 Oct 91 p 4

[Article by Guo Zhonghe (6753 6988 4421): "Current Economic Problems, Solutions"]

[Text] Since last year various measures have been put into effect to regulate the intensity of the belt-tightening policy. As a result, superficial difficulties, such as insufficient ultimate demand, which at one point hampered the normal development of the nation's economy, have eased notably. Production, construction, and circulation have shown signs of rebounding across the board.

However, the recovery thus far has been less than robust and the national economy is still in a high-inputs-low-outputs mode. Moreover, there is a web of interwoven problems. At the heart of all those problems is the fact that economic development and structural

adjustment do not proceed in tandem with each other. Macroeconomic regulation and control urgently demands that we vigorously and steadily speed up structural adjustment even as we stabilize economic development.

#### **Current Economic Problems**

Anomaly one: Even as industrial growth picks up steam, profits remain depressed. In the first eight months of this year, the nation's industrial output value rose appreciably faster than last year, but profit margins remained slim. State industrial enterprises within the budget realized 56.8 percent less profits than the same period a year ago and then dropped another 9.2 percent. Losses by unprofitable enterprises increased 18.9 percent over the same period last year. In industry, the sales to profits and tax rate was 13.21 percent, hitting a record low in recent years. By the end of August, about one third of the enterprises was still in the red. Comparable product costs were up 5.1 percent over the same period last year.

Anomaly two: A market on the mend coexisting with the overstocking of finished products. Boosted by growing demand, the market has been climbing out of a sustained slump since the beginning of the year, getting stronger and stronger each month. Between January and August, it grew a solid 12.8 percent. However, there has been no appreciable progress in the effort to clear inventories. As of late August, the amount of funds tied up in unsold industrial finished products in the state sector within the budget rose 15.2 percent over the year before and were 24.8 billion yuan more than the beginning of the year. Overstocking was particularly severe in the electrical machinery, textile, light, and chemical industries. Yet these industries continue to turn out products at an accelerating pace. The divorce between production and sales remains a serious problem.

Anomaly three: Price increases have been moderating, yet latent inflationary pressures are intensifying. Since the beginning of this year, the state has made major strides in adjusting irrational price ratios and straightening out the price system. The prices of steel, pig iron, crude oil, refined oil, and coal were adjusted in close succession along with rail freights. The dual-track pricing system was introduced for cement and a policy to adjust the prices of rationed grain and oil was adopted. The frequency with which prices have been adjusted and the magnitude of such adjustments have rarely been equaled since the PRC was founded. Be that as it may, the overall price level on the domestic market has remained fairly stable. Between January and August, the overall retail price level inched up just 2.3 percent over the same period last year. Yet latent inflationary pressures are still enormous. On the one hand, the scale of credit has been overextended in an earlier period and too much money has been pumped into circulation. The resultant demand explosion generated vast pressure. On the other hand, even as industrial profitability remains depressed, workers' wages and bonuses have been on an upward trend, creating strong cost-led pressures.

The economy has been bouncing back rapidly, yet the overstocking of finished goods continues to rise and profits continue their slide. At the heart of the problem is the slow pace of structural adjustment, which means that the allocation of capital goods is still irrational.

1. Supply structure. Earlier the thrust of macroeconomic regulation and control was "increasing the volume of goods in short supply." A measure of progress has been made in strengthening agriculture and improving the investment mix. The mismatch between the basic industries and national economic growth has been ameliorated tentatively. The "bottleneck" effect has been eased somewhat. However, the unhealthy situation that arose a few years ago when we lost control of the macroeconomy and the economy became overheated, with the regions becoming more and more alike in their industrial structure and extensive overlapping in imports and projects—has remained intact. A majority of enterprises have only suspended operations, in whole or in part, temporarily idling production capacity. Right now many processing enterprises are operating at a mere fraction of their capacity: cigarette and cotton spinning spindles, 60-70 percent; high-aluminum products, tractors, refrigerators, and washing machines, 40 percent; vacuum cleaners and air-conditioners, only 20 to 30 percent. It is precisely because of the overcapacity in these industries, way above what the market can absorb; the failure of most enterprises to conduct optimal reorganization in accordance with objective economic principles and adjust the existing stock of merchandise; the imbalance between aggregate supply and aggregate demand; and the irrationality in the supply-demand structure that some enterprises now find themselves in dilemmas as far as production and operations are concerned. They must struggle to keep production going by depending by transfusions of credit from banks and deferring loan repayments; in other words, they produce and add to the overstocking problem, while lengthening the chain of debt in the "triangle of debt." Or, they are forced to cut back on production, which means significantly higher costs per unit product and a steep drop in profits due to the inelastic increase of workers' wages and assorted management expenses. The incompatibility between the product mix, industrial structure, enterprise structure, and regional structure, on the one hand, and the demand of consumption structure and economies of scale, on the other, is also reflected sharply in the mix of overstocked merchandise. According to statistics, a substantial portion of the products sitting in the warehouses today are unmarketable because of problems relating to model, quality, or performance. For all practical purposes, some of the idle products have become ineffective supply. How should the supply structure adapt to the consumption structure is one economic-growth issue that must be resolved in the future.

2. Demand structure. As various macroeconomic measures intended to relax the belt-tightening policy took effect one after another, investment and consumption have shown signs of recovering rapidly. The shortfall in

aggregate demand has shrunk markedly. In the first half of the year, supply exceeded demand by 10 percent, down 5.74 and 4.27 percentage points from the figures for 1989 and 1990, respectively. So the supply and demand gap basically fell within the normal range. At the same time, the structural imbalances that were lost sight of amid an imbalance between aggregate supply and aggregate demand a few years ago have become more and more glaring. Earlier, the focus of macroeconomic regulation and control was on the demand for working capital while investment in fixed assets was slow to bear fruit. Insufficient attention was paid to peasants' consumption demand, dampening the sales of some popular and marketable products. The result was the overstocking of unpopular as well as popular products. It has been estimated that of all aggregate demand in society in 1990, "two demands were on the low side and one demand was on the high side." Fixed assets investment demand accounted for just 22.4 percent, almost 3 percentage points lower than in a normal year. Peasants' consumption demand made up a mere 18.8 percent, 2 percentage points lower than in a normal year. During the same period, however, working capital investment demand accounted for 11.1 percent, 3 to 4 percentage points higher than in a normal year. The irrationality of the demand structure has disrupted the product supply-demand equation. Large amounts of funds are tied up in products sitting idle in warehouses. This gives rise to swollen inventories and exacerbates the shortage of working capital. Since the beginning of this year, the demand structure has changed, the shares of both fixed assets investment demand and personal consumption demand helping to ease the temporary imbalance between production and sales, but they have done nothing to rid the warehouses of close to 70 billion yuan in industrial products accumulated over the past few years. This is an important reason why the warehouses continue to bulge with unsold goods even as the market is showing strong signs of life.

3. Distribution structure. Since the problem of inequitable distribution must be resolved over a long period of time, the unequal distribution of social purchasing power has become a striking problem. According to calculations, there are two kinds of imbalances in the distribution of purchasing power: between urban and rural areas and between individual citizens. In 1990, in a phenomenon rarely seen in the past decade, the rural share of purchasing power fell 4 percent compared to a normal year and its purchasing power realized grew 0.4 percent compared to the preceding year, 4 percent lower than in urban areas. This is a major reason why the rural market has remained soft for a prolonged period of time, despite numerous efforts to revive it. Among urban residents, some have at their disposal more money than before, but a majority of people are still barely able to make ends meet. In this pattern of distribution of purchasing power, consumption comes in waves and goes through sharply distinctive phases. Right now most light industrial and textile products are not yet significantly distinguishable from one another in terms of

grade and there have yet to appear new hot consumer items. Under these circumstances, what we have is a mismatch between product mix and consumption structure, resulting in a temporary "consumption split" and worsening the imbalance between the supply and demand of consumer goods.

**4. Consumption structure.** After urban residents satisfy their basic needs of food and clothing and reach for a comfortable standard of living, they will increase consumption in the tertiary sector. But because of the slow pace of reform in the social welfare system, the consumption structure has become even more grossly out of step with changes in household incomes. A relatively small percentage of a household's income goes to consumption in the tertiary sector. Statistically, only 10 percent of the urban residents' living expenses are spent on noncommodity consumption, up a mere 2 percentage points over 1981, far lower than the growth in incomes during the same period. The figure of 10 percent or so is also considerably lower than its counterparts in other nations at a similar level of development, usually about 20 percent.

Constrained by income levels, the consumption environment and consumption habits, and in response to the fact that there is as yet no sound social security system in the countryside, rural households spend most of their incomes on building houses and preparing for illness, old age, and death. As a result, at a time when urban households are reaching a saturation point in their acquisition of durable consumer goods, rural households possess a relatively small number of such goods. The narrow range of consumption of urban and rural households and the consumption fault between the two is a major factor behind the depressed level of household consumption and the steady decline in the share of withdrawal of a commodity nature over the past few years.

#### Structural Adjustment: Only Way Out of Economic Deadend

In essence, structural irrationality is an overall reflection of strained economic relations, of the weakened role of planning during the transition from the old to the new order, and of the fact that the market is not yet fully functioning.

The current crop of structural problems has gotten worse even as the gap between aggregate supply and aggregate demand is narrowing gradually and to a large extent, results from the lack of coordination among stabilization, adjustment, development, and reform.

Therefore, if macroeconomic regulation and control merely contents itself with tinkering with the overall volume instead of seeking practical results in adjusting the structure, there is little chance that the current improvement in supply-demand relations and stable economic growth can be sustained in the long haul. The only option we have to solve the various existing economic contradictions is structural adjustment.

Given the current situation, we must do a good job in the following areas:

#### 1. Stabilize aggregate demand, concentrate on adjusting the demand structure, and further revitalize economic circulation.

First of all, ensure that funds for key projects are made available promptly and end foot-dragging in paying project funds. Even as we strictly limit the number of new projects and prevent any thoughtless expansion of the scale of investment in projects under construction, we must expeditiously appropriate funds required for large- and medium-sized projects that have already been approved and funding for which has already been allocated. Special banks must meet the investment lending quota authorized in the plan. Make active use of construction bonds to raise construction funds extensively. Apart from initiatives by central and local authorities, we must tap extra-budget sources of funding and use them in a way consistent with the industrial policy.

Second, take practical and effective measures to increase peasant incomes and raise rural purchasing power to the level of a normal year. On the one hand, adopt practical measures to solve the problems peasants experience in finding buyers for their agricultural byproducts, even at sagging prices. Enforce protection prices. Strictly limit the extent to which prices of agricultural capital goods can be increased and implement in earnest the various measures designed to ease the burden on peasants. On the other hand, it is proposed that the state withdraw 3 to 5 billion yuan worth of overstocked industrial goods to encourage disaster areas, old liberated areas, minority-inhabited areas, border areas, and impoverished areas to put together some rural transportation projects, water conservancy works, and other collective or public welfare undertakings through sweat equity.

Third, further stabilize export demand and encourage exporting by pulling the tax and exchange rate levers. Already some localities have shown signs of going slow on exports, so the export situation is not optimistic. All practical and effective measures need to be taken, therefore, to protect the enthusiasm for export and struggle to increase exports 10 percent this year over a year ago. It is suggested that the state squeeze 10 billion from bank loans as export credits to facilitate trade with the Soviet Union, East Europe, and a number of developing nations. This also will help clear the swollen inventories at home.

#### 2. Diligently improve the supply structure and raise the quality of supply.

First, continue to improve agriculture. Governments at all levels should actively implement the various aid-agriculture policies. Mobilize the peasants' enthusiasm for production. Organize agricultural production properly. Ensure market supplies.

Second, work hard to adjust the internal industrial structure. To begin with, reiterate the national industrial

policy and take coordinated macroeconomic measures to ensure that it is actually implemented. Second, control the scale of production as appropriate based on market demand. Check any tendency to keep up with the Joneses or to pursue output value exclusively so as to make sure that for the year as a whole industry grows at a proper rate. Third, cut down on the ineffective supply of industry. A tight credit policy should be applied to enterprises that keep on turning out goods regardless of their marketability, therefore adding to the inventory problem. Stop enterprises from "producing and overstocking at the same time." Fourth, speed up the formation of enterprise groups led by mainstay enterprises. Make products more competitive. Take the first steps toward organizing the existing capital goods optimally. Allow enterprises to transfer administrative responsibilities or properties from one to the other for a payment.

Third, strengthen the market mechanism and raise the quality of supply. To begin with, improve the quality and performance of products by improving enterprise management and relying on scientific and technical progress. Develop new products. Increase product variety. Second, firmly correct any practices that seek to protect the backward and blockade the market so that good products do well and bad products are weeded out through market competition. Third, make more extensive use of state commerce, material enterprises, and supply and marketing cooperatives as the main channel of commerce. The state should build up the reserves of key raw materials to an appropriate level.

### 3. Vigorously adjust the distribution structure and accelerate the reform of the income distribution system.

The distribution system is one of the most important things that help determine both public initiative and the development of social productive forces. In adjusting the distribution structure, we must work on four levels particularly carefully. First, sort out the relations between distribution according to labor and other distribution methods. In the past few years, as the economy was revitalized, people came to own an increasing number of stocks and bonds and save more and more money. With these financial assets on the rise, nonlabor income has increased notably. At present, incomes derived from interest on savings amount to a high 60 billion yuan a year, more than the increase in all wages. Interest earnings, however, are unevenly distributed, being concentrated mainly among high-income households. How to adjust non-labor incomes, therefore, is critical to implementing the principle of distribution according to work. We need to work out a right policy here. Second, sort out the primary distribution relations. Solve the problems of income growth exceeding economic growth and where most profits being pocketed by individuals. Third, sort out the redistribution relations. Plug all sorts of loopholes. Prevent the loss of social wealth. Raise the personal income regulating tax. Fourth, sort out the wage system. Work out such problems as egalitarianism, eating out of the big rice pot, and excessively low wages in some trades.

### 4. Correctly guide consumption. Adjust the household consumption structure assiduously but carefully.

Today urban and rural consumption demand in China is gradually returning to normal. There is an urgent need for effective macroeconomic regulating and control measures to guide household consumption properly and widen the range of consumption for the citizen. To begin with, we must further expedite the commercialization of housing; the sale of houses must go hand in hand with the gradual increase of rents. The present urban housing system characterized by low rents and high subsidies must be changed. Second, the public health care system should be further reformed to shift part of the health care costs onto the citizens themselves. Third, we should actively guide public spending on services relating to cultural life and increase the share borne by the citizen. Enrich his spiritual and cultural life. Fourth, guide the citizen's consumption behavior properly, channeling some consumption funds into investment in production through the use of such economic tools as savings and insurance.

### 5. Seize the favorable opportunity to deepen the reform of the macroeconomic regulatory and control system.

As far as economic operations are concerned, the main problem with the Chinese economy right now is that the distribution of national income and industrial structure are seriously distorted. As far as the economic system is concerned, the main trouble is "eating from the two big pots of rice." The anomalies in economic life, in turn, can be traced to problems having to do with the macroeconomic regulatory and control system. As long as structural problems remain unresolved, human potential cannot be fully tapped and material resources cannot be put to the best use. Therefore, we must continue to deepen reform. Learning from the practice of reform in recent years, we realize that any effort to deepen reform must come to grips with the following. First, reform must be based on an overall plan. Policies must be unified. It is important that quantitative limits be set on the basis of scientific projections. Second, when it comes to the actual implementation itself, a measure may be modified to suit the time or the local conditions. Do not rigidly impose a policy uniformly across the board. The locality or enterprise in question may be given the authority to phase in a measure over time. Third, in line with the principle of specialization, the adjustment of interests should firmly be undertaken jointly by the central government and local authorities. Any reform that involves the interests of the masses should be carried out in strict accordance with the principle of shared responsibility among the state, the collective (enterprise), and the individual. Fourth, handle the relations between reform and stabilization properly. Make full use of the political superiority of the socialist system. Fifth, choose the right time to introduce a reform. Pay attention to the economic environment; look for a time when aggregate social supply and aggregate social demand are in balance. At the same time, keep an eye on the social and political environment, both domestic and international, and be

mindful of the psychology of the public and its tolerance threshold. We should grasp the existing favorable opportunity afforded us by relatively ample supplies to unveil reform measures to revitalize large- and medium-sized mainstay enterprises, sort out price relations, improve the social security system, and effect other underlying structural changes.

### **Large, Medium State Enterprise Vitalization**

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[Article by Zong Han (1350 1383): "Further Vitalize Large and Medium State Enterprises"]

[Text] Large and medium state enterprises form the backbone of China's modernization drive and are the most crucial component of socialist public ownership. Whether or not we can further vitalize these enterprises and guarantee their leading position has a vital bearing on economic improvement and rectification, the intensification of reforms, and the long-term development of modernization. It will also affect our ability to fully bring into play the superiority of the socialist system and further consolidate and develop the socialist system. As such, they deserve the attention of the whole party.

Since the founding of the PRC, particularly since the Third Plenary Session of the 11th CPC Central Committee, large and medium state enterprises have seen substantial progress and have demonstrated their obvious superiority. They have always played a decisive role in the national economy and have taken a gratifying stride forward in the process of intensifying the reforms, finding an appropriate means of separating the right of ownership and the right of operation and reforming the managerial structure and operational mechanism. Facts show that enterprises under whole-people ownership which can resolve the contradiction between the private ownership of the means of production and socialized production, are essentially in conformity with the requirements of large-scale socialized production and the fundamental interests of the working people and can promote the development of the productive forces at a much faster speed than under private ownership.

We must also see that there are still drawbacks in the managerial structure and operational mechanism of our state enterprises, however, and that these have adversely affected their vitality and enthusiasm. Taken as a whole, there are roughly four types of large and medium enterprises. The first type refers to those which have established a fine operational mechanism and a solid foundation. The level of their technical knowledge, management, and products is considered the best in the country. Their labor productivity is high and their performance is good. They have long-term plans and stamina in production. These enterprises account for about 20 percent of the total. The second type refers to those enterprises which have initially established an operational mechanism suited to the development of the

planned commodity economy and have laid the necessary technical and managerial foundations. Their production has promise. Because the level of their products and technical knowledge is still mediocre, however, and there are still problems of one sort or another in their management, they are prone to react passively to changed external circumstances. The third type refers to enterprises with aging equipment, shortage of funds, and lack of stamina, but which can be improved where necessary because the required foundations have been laid. These three types constitute the majority. The fourth type refers to enterprises which are seriously lagging behind in technical knowledge and managerial skills. They do not have a fixed production direction nor do they have leading products. Their performance is poor. Some have more liabilities than assets and have long been running at a loss. This type of enterprise accounts for 10 to 15 percent of the total. Different measures need to be adopted to vitalize these large and medium enterprises. In this article, I will briefly discuss my views on issues common to the different types of enterprises.

#### **1. The decisionmaking power of enterprises.**

Large and medium state enterprises are relatively independent socialist commodity producers and operators. Their basic function is to produce and deal in commodities with value and use value according to market demand. Rather than carrying out production for production's sake, they produce for the market and for the purpose of exchange. They have to create more, better, and newer use value according to ever changing market demand, exchange this in the market for more value, and reinvest this value in organizing reproduction. The cycle goes on. While satisfying social demands, enterprises will also be able to develop at the same time. This is a complicated process of commodity production in which enterprises must independently formulate policy decisions, organize production, and carry out distribution and exchange. The fact that this involves a variety of complicated relations, both internal and external, means that enterprises must have the necessary authority and operational mechanisms to fulfill their functions. These include the motivation mechanism, the interest mechanism, the decisionmaking mechanism, and the constraint mechanism for the development of commodity production, as well as the necessary ability to make one's own decisions, assume sole responsibility for profit and loss, build up one's own accumulation, and plan for one's own expansion. This is what we mean by the right of enterprises to manage their own affairs. As I see it, enterprise vitalization means giving enterprises these powers and mechanisms. Because our state enterprises are socialist enterprises, they must develop socialist commodity production rather than commodity production in general, however. Their direct objective in developing production is to provide more use value for society to satisfy people's and society's needs. At the same time, they must strive to reduce consumption and cost in the process of production, obtain as much value and surplus

labor as possible with as little input as possible, and increase accumulation. The ultimate aim in increasing earnings and accumulation is also to satisfy people's and society's needs, including the needs of enterprises to develop and improve the living standards of their staff and workers. Enterprises have their own interests but they must also consider the interests of the whole. They have their own decisionmaking power but they are also subject to the necessary constraints of the law of socialist commodity production and must observe self-constraint in light of the characteristics of whole-people ownership enterprises wherein decisionmaking power is separated from whole-people ownership. Thus, they must take into consideration the interests of the owner and the operator, as well as the interests of the state, the enterprise, and the individual employee, in their business activities and in the distribution and use of their business results. They must also submit to the will of associated labor in the whole society and in the whole enterprise. The unity of opposites between commodity production in general and socialist commodity production, between the partial interests of enterprises and overall interests, and between production value and use value, is a special feature of socialist commodity production and constitutes an important aspect of the superiority of socialism. This is particularly true of large and medium state enterprises. In order to vitalize large and medium state enterprises, we must pay attention to these contradictory aspects in the unity of opposites.

We have been carrying out economic restructuring for 11 years now. What is the situation regarding these aspects in the reform of large and medium state enterprises? One thing we are sure of is that economic restructuring, with enterprise vitalization as the central task, has achieved enormous success since the Third Plenary Session of the 11th CPC Central Committee. Large and medium state enterprises have seen profound changes in their managerial structure and operational mechanism. They are enjoying much greater management autonomy and many of them have become relatively independent operators with the right to manage their own affairs. A large number of advanced enterprises have also emerged. With advanced technical knowledge, management expertise, and vitality, these enterprises are thriving in every respect and can withstand market storms. As far as the majority of large and medium enterprises go, the operational mechanism for management autonomy and financial responsibility is still a distant goal, however. On the one hand, enterprises have too little autonomy and lack the ability to manage their own affairs and assume sole responsibility for profit and loss. On the other hand, some enterprises have no mechanism for self-constraint. The job is wide of the mark on both counts. At present, the former is the principal problem with the majority of enterprises.

It is mainly in the following areas that enterprises are not enjoying their autonomy: 1) Mandatory plans, which are imposed on them by different authorities, are constantly changing and mandatory production tasks are handed

down without the mandatory guarantee of supplies and funds; 2) enterprises are generally short of accumulation and lack the necessary resources to expand reproduction; 3) price control is excessively rigid and the price of some products covered by mandatory plans is below cost; 4) large enterprises lack the necessary authority to conduct foreign trade; 5) some enterprises are still appendages of government organs and indiscriminate intervention by government departments has proved too much for them; and 6) they are overburdened with apportioned charges.

Management autonomy is the prerequisite for self-accumulation and self-expansion. It is also the basic requirement for the vitalization and successful running of enterprises. As the objective requirement for the development of commodity production by socialist enterprises, this autonomy should be inherent in enterprises rather than granted by the state. Our task is to establish the corresponding managerial structure according to the law of development of the socialist planned commodity economy.

Should large and medium state enterprises have unlimited autonomy? No. In my opinion, there are at least two principles which they must observe on the whole. First, the principle of safeguarding and developing whole-people ownership must be upheld in exercising management autonomy. For state enterprises, autonomy refers to management autonomy. This includes the right to decide on the use and allocation of the means of production, even their disposal under given principles, but they are not to change the nature of the ownership of the means of production. Second, in the process of reproduction (direction of production, basic construction, and the distribution of surplus products), they must submit to macroeconomic regulation, command, and supervision, and implement the state plans. In large-scale socialized production, the interests of enterprises and overall interests are objectively in conflict and the interests of enterprises must be subordinated to overall interests. This is determined by the nature of whole-people ownership. Fundamentally speaking, this is also conducive to the development of large and medium enterprises. We are aware that some enterprises have not been doing too well in this regard. For instance, they are not conscientious enough in implementing mandatory plans. They hand over goods that are inferior and oversupplied, while retaining those that are of fine quality and in short supply, and do not honor contracts entered into. "Double guaranteed" enterprises expect others to guarantee their needs but do nothing about guaranteeing the needs of others. In their handling of the relationship between accumulation and consumption, and between delivery to the state and retention for own consumption, they try to retain more by concealing the true figures, blindly increase consumption and workers' welfare, pay no attention to accumulation, and so on. These practices are contrary to overall interests, which means that they are, ultimately, also contrary to the interests of enterprises and their staff and workers. These will not be tolerated. Although the specific contents of the

autonomy to be enjoyed by large and medium enterprises of different scales and types should be different, the basic principle of subordination to overall interests remains inviolable. An important task in the intensification of reforms is to work out and define the specific contents and limits of the autonomy to be enjoyed by different types of state enterprises so that they can independently carry out commodity production with great vitality and will consciously restrict their own actions in accordance with overall interests and the socialist orientation.

## 2. Enterprise self-accumulation capability.

In order to vitalize large and medium enterprises, efforts must be made to increase their self-accumulation capability. Accumulation is the source of expanded reproduction. Only when accumulation has been increased will it be possible to expand reproduction. Enterprises should mainly strive to increase accumulation through continuous efforts to expand reproduction and create more surplus products. The establishment of a mechanism for self-accumulation and self-expansion constitutes an important task in the intensification of reforms. It is also an important source of vitality for large and medium state enterprises.

There is no consensus on the self-accumulation level and capability of large and medium state enterprises. Some comrades think that enterprises have an overabundance of accumulation. Others think that enterprises are excessively squeezed and lack the ability to expand reproduction. Which of these views conforms more with reality? As far as we know, the self-accumulation level of Chinese enterprises is much higher than what it was a decade ago, thanks to the reforms. Some enterprises have been able to expand their operations using their own accumulation as a result of proper contracting and management but these only account for a small number. The majority of enterprises are short of retained earnings and have poor self-accumulation and self-expansion capability. In 1988, earnings retained by large and medium state enterprises totaled 15.7 billion and 8 billion yuan, respectively, both figures considerably less than the 19.2 billion yuan retained by small enterprises. In 1990, profit retention by state industrial enterprises covered by the state budget shed 40.9 percent compared with the preceding year, with actual profit retention accounting for a mere 8.9 percent of profit and tax realized, back to the level before 1982. The average ratio between the profit created and retained by each employee is 7:1 for large enterprises, 5:1 for medium enterprises, and 3:1 for small enterprises. Large and medium enterprises create more profits but retain less. Their means of labor are complicated and they are heavily burdened with technical renovation tasks. It is obviously unreasonable that they should have a smaller self-accumulation capability than small enterprises. Some people say that large and medium state enterprises "have made great contributions but they are essentially weak because of the lack of replenishment."

Does small profit retention and a decline in self-accumulation capability mean that enterprises are performing poorly and have little surplus products? No, not exactly. We see that economic overheating since the second half of 1984 has led to inflation and structural imbalance and this has caused the authorities to carry out economic improvement and rectification and curtail demand. Consequently, some enterprises have to operate under their full capacity. Their income and performance have both dropped on account of sluggish sales. Large and medium state enterprises on the whole have registered increases in terms of total output value, net output value, and profit and tax handed over during these last few years, however. The drop in the profit and tax rate on capital is, to a large extent, due to changes in the ways surplus products are realized. This includes the part passed on to agriculture as a result of increases in the price of farm and sideline products as well as raw and semifinished products; the part passed on to banks as a result of increased loan and higher interest rates; the part passed on to other sectors as a result of increases in levies and charges; the part passed on to consumption as a result of increases in wages and workers' welfare; and so on. Surveys show that such transference of profits accounts for at least 50 percent of the profits realized. After discounting for excessive transference, coupled with increases in types of tax and higher tax rates, some enterprises are still able to keep their net income from falling but their profit retention is steadily diminishing. This is the basic reason for the drop in the self-accumulation capability of enterprises.

Another problem with the self-accumulation capability of enterprises is the unequal accumulation capability between different trades and between different enterprises. According to 1989 sources, the food processing, machine-building, and metal goods manufacturing industries had a higher profit retention ratio, accounting for 25.9, 24.6, and 21.1 percent of their respective aggregate profit and tax. These were followed by the electronics industry, coal mining and dressing, and the mining and dressing of other minerals, accounting for 19.6, 19.6, and 17.6 percent, respectively. Industries with a low percentage of profit retention mainly included the more organic heavy and chemical industries, such as the power industry, chemical industry, nonferrous metals industry, and most mining industries. The less organic light industries, including the tobacco, textile, and chemical fiber industries, which constitute the main source of state revenue, had high tax rates and a low accumulation capability. Some industries, such as the coal and petroleum industries, which were key areas of development, were running at a loss across the board due to irrational pricing. Unless measures are taken, it will take at least 50 years to increase fixed assets by 100 percent at the present level of profit retention in most enterprises. Unless something is done quickly, economic development will suffer immensely.

Some of the changes in the ways surplus products are realized are reasonable ones. For instance, in the past,

the price of agricultural products was too low. By raising the price and narrowing the price gap between industrial and agricultural products, the unreasonable income obtained by industry by taking advantage of the low price of agricultural products is returned to agriculture. The same is true of changes in the ways surplus products are realized between different trades following readjustments in the price of raw and semifinished products and energy. Much of the transference is unreasonable, however. Thus, we must create the necessary conditions for changing the low profit retention and self-accumulation capability of large and medium state enterprises as quickly as possible. Without self-accumulation capability, an enterprise cannot begin to talk about self-expansion and self-transformation, still less about assuming sole responsibility for its own profit and loss. In the course of reform, we must help enterprises build up the necessary accumulation, while increasing the amount of profits turned over to the state, and strive to bring about the optimum combination of the two. Profit retention must be high enough to ensure that enterprises will have sufficient production development funds, bonus funds, and welfare funds.

In order to raise the self-accumulation level of enterprises, two points of understanding need to be clarified. First, what do enterprises rely on for self-accumulation? Self-accumulation is determined by a variety of factors but, most important of all, enterprises have to rely on themselves. Accumulation is converted from surplus products. Surplus products created by our large and medium state enterprises account for about 70 percent of our state revenue. They are the primary source of the accumulation by our enterprises and national economy. They not only create accumulation for their own needs but support other sectors of the national economy with their surplus products. This shows that in building up their accumulation, large and medium enterprises must not look to the outside or the higher authorities, or pin their hope on "the decentralization of power and the concession of interests," but should look inward and rely on themselves. Only by doing well in production, enlarging the production scale and creating more value and surplus products can they give support to the state while retaining more for themselves, thereby improving their self-accumulation capability. Because of their size, large and medium enterprises need more accumulation. For some, it is no use unless an additional 100 million yuan is poured in each year. They cannot rely on other enterprises and sectors. They can only rely on themselves. Large and medium enterprises have great potential in this respect. Provided that this potential is tapped, they can quickly build up their accumulation.

Second, on the macroeconomic level, it is necessary to correctly handle the relationship between the state and enterprises, implement the policy of "letting in water to allow the fish to breed" and avoid killing the goose that lays the golden eggs. China is a developing socialist country with heavy tasks of development and construction and a low overall level of production. As it can only

create a limited amount of national income and surplus products each year, the imbalance between funds needed and funds available, and between accumulation by enterprises and accumulation by society, will continue for some time to come. In the course of distributing their surplus products, large and medium enterprises have to take into consideration the interests of all concerned and must, first of all, satisfy the needs of the whole country and submit to overall interests. Under no circumstances should an enterprise be allowed to retain all its net income. The necessary deductions must be made. Funds thus pooled by the state will be spent on key construction projects and essential social programs. Such pooling of funds is the precondition for ensuring speedier development of large and medium enterprises. But this must be done appropriately. The needs of enterprises for expanding reproduction must be taken into consideration in determining the amounts to be pooled. Large and medium state enterprises are also key areas of national construction and many of the surplus products are produced by them. If we want them to produce more surplus products, we must create the necessary conditions for them. "Why is it that the sewage is so clean? Because there is running water at the source." With accumulation by enterprises at a low level and with a limited source of water, how can the river and sea of the national economy have a plentiful supply of water? On this question, we should take a more long-term view. By allowing enterprises to retain more, they will be able to produce more and the state will receive more in the course of time. Otherwise, the state will receive less. This has been proved by past experience.

### 3. Enterprise scale and the structure of individual trades

The scale of enterprises and the structure of individual trades have an important effect on the vitality of large and medium state enterprises. Scale refers to material quantity. Quantity and quality are interrelated and interchangeable. As Engels pointed out: "There is a limit to purely quantitative demarcation. When this limit is reached, it will become a matter of qualitative difference." (*Collected Works of Marx and Engels*, Vol 20, p 403) In economic circles, this is called the economy of scale.

Studies both at home and abroad show that the scale effect is more conspicuous in some trades than in others. As things stand in China, the scale effect is roughly seen to be of three different degrees: First, trades where the scale effect is most conspicuous, include the petroleum processing industry, the ferrous metal smelting and rolling industry, and the chemical fiber industry. Their product cost and net income will improve as the scale of production increases. If the scale is too small, returns will decline. If the required scale is not reached, they will sustain losses. Second, trades where the scale effect is not very conspicuous, include the manufacturing of plastics, metal goods, apparatus, and meters. Third, trades where the scale effect is extremely inconspicuous, include the production of handmade furniture and the arts and craft trades. How to organize production and construction in

accordance with the principle of economy of scale in those trades where the scale effect is conspicuous is of great practical importance to the rational deployment of productive forces, the improvement of economic performance, and the fundamental vitalization of large and medium enterprises.

Large and medium enterprises stand to gain more from economy of scale than do small enterprises but the size of large and medium enterprises is also relative. At present, many of our enterprises are fairly large in size but they do not conform with the requirements of economy of scale. This is chiefly manifested in the fact that in individual enterprises, the scale of the principal production equipment is small and the degree of concentration is low, whereas in the entire trade the scale of production is unduly large and the production capacity exceeds the actual purchasing power. For instance, there are 125 auto works in the whole of China, each producing 5,000 vehicles annually on average. Whereas, in the United States, Japan, and Germany the leading car manufacturers are responsible for between 70 and 90 percent of the national output. The combined output of the top seven auto works in China only accounts for 35 percent of the national total. To achieve an economy of scale, it is generally reckoned that a car manufacturer should have the capacity to produce 300,000 vehicles annually. In China, the car manufacturer with the highest annual output has a designed capacity of 30,000, to be expanded to 65,000 by the year 1992. There are more than 300 elevator manufacturers in the whole of China. The most productive manufacturer only produces 650 elevators a year, while more than 200 plants are producing only a dozen or so a year. Most foreign elevator manufacturers have an annual capacity of close to 10,000. In machine-building, the market share is 53.4 percent for the top nine manufacturers in the United States, 53.9 percent for the top 10 in Japan, but only 2.9 percent for the top six in our country. The scale of individual plants is small but the combined production scale of all plants far exceeds demand. This is the case with most products in the machine-building, electronics, automobile, and light industries. Large, medium, and small enterprises are "comprehensive" establishments that take everything upon themselves, with no coordination based on specialization. This leads to large investment, high cost, sluggish technological progress, wasted resources, and factories operating under capacity.

In order to continue to vitalize large and medium enterprises, we must make a determined effort to readjust the structure of different trades and concentrate our efforts on running a number of key enterprises efficiently. Large key enterprises form the backbone of the national economy. They are the main providers of important products and revenue. In a large country such as ours, unless the key enterprises are vitalized, it is impossible to increase our national strength and achieve better results, still less to talk about bringing about a turn for the better in the national economy. We must encourage the development of interregional, multitrade

and multilayer enterprise groups through such means as shareholding, controlling stocks, and merging with large and medium key enterprises as the nucleus. These should be given greater management autonomy, including autonomy in foreign trade, so that they can play a fuller role. Today, a great number of large enterprises are badly in need of renovation due to aging equipment and poor technical knowledge. As the renovation of these enterprises takes both time and investment, it is rather difficult for the task to be financed solely by the state. By stabilizing the base figures of contracts, we should be "storing water to raise fish," and adjusting the time limit of contracts to the duration of capital construction and technical renovation as well as repayment plans, make enterprises work for their expansion mainly through self-reliance. The experience of the Shoudu Iron and Steel Company in reform and expansion these last 10 years and more proves that this method is feasible.

Medium enterprises must also appropriately enlarge or reduce their scale in the light of demand. Not all large and medium enterprises are necessary. Although small enterprises suffer in terms of scale, they have other strong points. We cannot always look at enterprises in terms of their scale. Rather, we should see the prospects for their existence and development. Enterprises without any future because of poor technical knowledge, unmarketable products, and high consumption level should be resolutely closed down, suspended, merged, or switched to other lines of production. This also applies to certain large and medium enterprises. We cannot keep all enterprises. Some enterprises should not have been there in the first place and these should be disbanded. Enterprises that need readjustment due to changed circumstances should be resolutely readjusted. When we readjust the structure of enterprises and enlarge their scale, we should proceed from the interests of the whole and link the aggregate scale of enterprises with the general trend of modernization. The demand on the aggregate scale of enterprises is that it must conform with the law of the proportionate development of the national economy and be suited to effective demand and the trend of production development at a given period. Only when the readjustment of the scale of individual enterprises is carried out according to the requirement of the aggregate scale of their respective trades will the readjustment be reasonable. Otherwise the vitality of enterprises will be put in a straightjacket. Ours is a socialist country. When we run enterprises, we must not simply proceed from the interests of enterprises, sectors, or regions, but must also take the interests of the whole into account and combine overall and partial interests. Enterprises, the existence of which seem justified from the angle of the enterprise, sector, or region concerned but not so from the national angle, should not be maintained. The readjustment of the scale structure of enterprises concerns the interests of many quarters and is by no means an easy job. We should create the necessary institutional conditions so that those who carry out proper readjustment will be rewarded and those who ignore the scale effect will stand to lose. We must educate

people with actual examples and convince them that they must take the interests of the whole into account rather than chase partial or temporary interests.

#### 4. On enterprise management.

In order to vitalize large and medium enterprises, it is necessary to strengthen the internal management of enterprises. With the same external conditions, why is it that in some enterprises the staff and workers are full of vitality, products are always in great demand and production is thriving, while others are saddled with difficulties, their products unsalable, and their performances poor? The fundamental reason is that the standards of their management differs.

We should see that through reform and the opening of the country to the outside world these last 10 years, the standard of our enterprise management has been improved. Some enterprises are run methodically because they have already established a system of management that is both strict and scientific and conforms with the socialist principle. We have 133 first-class state enterprises in our country. The quality of their principal products is up to 1980's advanced international standards. The rate of profit and tax on funds averages 56.6 percent, 2.9 times the average for large and medium enterprises. The product quality, consumption level, and economic performance of our 4,078 second-class enterprises have all reached the advanced level for their respective trades. Taken as a whole, however, the quality of management is still rather poor in some of our enterprises. The low management level can mainly be seen in the following aspects: 1) In the process of replacing the old system with the new, enterprises are seen to be ill aware of their role as independent commodity producers and operators, weak in market competition and macroeconomic control capability, mediocre in operational strategy, and lacking in foresight. They may get by when the market is normal but once the market situation changes, they can only run around in circles, not knowing what to do and often end up making wrong policy decisions. 2) Their groundwork is weak and their internal system of responsibility is anything but sound. They are overstaffed and lax in discipline. 3) The level of their technical knowledge is low and they are not good at grasping technical renovation around the updating of products. 4) Their ideological and political work is weak and they do not pay equal attention to material and spiritual development. 5) They lack the necessary understanding and means of modernized management.

Backwardness in management will inflict heavy losses on enterprises and the national economy. Some of these losses are tangible, some are intangible. Tangible losses include those resulting from poor management and poor quality control (only 75 percent of the products are acceptable), which add up to 200 billion yuan a year. Losses due to ineffective utilization of materials and energy and high consumption per unit are also steep but not as steep as losses caused by the failure to bring the

enthusiasm of staff and workers into full play, lax discipline, low rate of utilization of working hours, as well as overlapping in imports and construction and unnecessary technical renovation due to mistaken policy decisions. Backward management and indiscriminate actions have made it impossible for existing productive forces to function properly and have prevented the formation of productive forces that should have otherwise been formed. These have become important factors hindering the technological progress of enterprises and shackling the vitality of enterprises.

Strengthening of enterprise management mainly refers to efforts to manage enterprises according to the requirements of socialist commodity production and establish an operational mechanism geared to the continuous expansion of production to suit market demand. It also refers to the establishment of a development mechanism for technological progress; an accumulation mechanism for continuous asset growth; a distribution mechanism for rewarding the diligent and punishing the lazy; an incentive mechanism for encouraging internal cooperation and unity; and a constraint mechanism for the correct handling of the relationship between the state, the enterprise and the individuals, so that everyone will submit to the whole. The idea is that enterprises should truly become relatively independent socialist commodity producers and operators.

There may be 10 or 20 measures for strengthening enterprise management but, by and large, there are mainly two things to be done: First, enterprises must establish a scientific system of internal responsibility to further arouse the enthusiasm of staff and workers. Second, they must produce products that are constantly being updated and are welcomed in the market.

The working class is the master of the state and enterprises. Fully bringing into play the enthusiasm, wisdom, and creativity of staff and workers is the way to the further vitalization of large and medium enterprises. It is also where the greatest superiority of large and medium enterprises lies. Comrade Deng Xiaoping pointed out long ago that we must fully bring the superiority of public ownership into play. "Not only must we make all our workshop directors and production team leaders assume responsibility and contribute ideas for production, we must also make all our workers and peasants assume responsibility and contribute ideas for production." In our effort to vitalize large and medium enterprises, we must respect the creative initiative of the masses and help the staff and workers to truly become masters of the house. We must make it possible for individual workers to work as their own masters at their respective posts. The idea is that everyone should show concern for the operation of his enterprise, and pay attention to its performance, and that the performance of the individual worker is closely linked with his honor and material benefits. To achieve this, it is necessary to establish a strict system of internal responsibility which combines responsibility, power, and interests, and clearly define the tasks, responsibilities, interrelations,

and corresponding rights and interests, so that each and every worker will be able to fulfill their duties and exercise their rights with a goal in mind, contribute their best, and obtain the corresponding benefits. Only in this way will it be possible for all to play their role as masters to the full and give full scope to the superiority of whole-people ownership. At the same time, it is also necessary to strengthen groundwork, including the fixing of quotas, criteria, technological discipline, and group management. Although most enterprises have drawn up the relevant rules, many are nominal and not strictly implemented. Some are out-dated and need amendment and revision. We must grasp specialized management by establishing responsibility assurance systems and supervisory systems for various management tasks. We must also further reform the labor, personnel, and distribution systems, and see to it that cadres can be promoted and demoted as required, workers can be employed and dismissed as required, and distribution can be increased and decreased as required. At present, there is a growing tendency toward egalitarianism and the practice of "everybody eating from the same big pot" in some enterprises. Unless reform is carried out, the enthusiasm of the masses will be dampened. Practice shows that if we proceed from reality in working out a set of methods for distribution, it is possible to achieve the goal of from each according to his ability and to each according to his work.

The fundamental task of large and medium enterprises is to produce commodities. Vitality or lack of it chiefly reflects itself in products. Only when there are products will there be markets, accumulation, and benefits. Without products, everything else is out of the question. Large and medium enterprises mainly produce major products vital to the national economy and the people's livelihood. They represent the level of our industrial production. Their output, quality, variety, and price all have a major effect on the national economy and the people's livelihood. Thus, all large and medium enterprises must readjust their product mix, grasp the updating of their products, and produce more and better products in the light of market demand. There is great potential in this respect. The task is arduous and the prospects are bright.

##### **5. External environment.**

In order to continue to vitalize large and medium enterprises, we must create a better external environment. This chiefly includes two aspects: First, we must make aggregate social supply and demand correspond and change the serious structural imbalance in the national economy; and second, we must establish a macroeconomic management system that is more conducive to enterprise vitalization.

Basic balance between aggregate social supply and demand, and basic harmony between various sectors of the national economy, are the basic conditions for the vitalization of large and medium enterprises. Within given periods, aggregate social supply and demand, as

well as the specific supply and demand of particular products, objectively exist. Excesses and shortages, as well as overheating and overcooling, are not conducive to enterprise vitalization. Overheating will lead to chaos and overcooling will lead to liquidation. A few years ago, economic growth became overheated and aggregate social demand greatly exceeded supply. This led to economic imbalance and the economic order was thrown into disarray. Although overheated growth has basically been brought under control through economic improvement and rectification, we must keep a sober head so that overheating will never occur again. The question now is: Many large and medium enterprises are operating at under capacity or have been forced to suspend operations because their products are unmarketable. Efforts must be made to suitably increase demand, including steps to suitably increase investment in fixed assets and technical transformation and build up the necessary material and technical reserves to prepare conditions for enterprise vitalization. Capital products should mainly be concentrated in large and medium state enterprises. There is a close bond between capital products and consumer products. When capital products are boosted, the market will expand. This will boost production and performance in those enterprises straightjacketed by aggregate demand and increase their vitality. Steps to suitably boost demand must be combined with readjustment of the production structure, to lay the foundation for development in the 1990's and during the next century.

At the same time, we must intensify reform of the macroeconomic management structure and further improve the planning, financial, taxation, material supply, pricing, and trade management systems to create better conditions for enterprises to manage their own affairs and assume sole responsibility for their own profits and losses.

##### **Socialist Enterprises Viewed on Party Anniversary**

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[Article by Jiang Yiwei (5592 0001 5517): "Dominant Entity Theory—Written in Commemoration of the 70th Anniversary of the Founding of the Communist Party of China" read at a "Theoretical Seminar on Problems of the Proletariat."]

[Excerpt] [passage omitted]

##### **(3) Staff Member and Worker Dominant Entity Theory—Basic Features of Socialist Enterprises**

The basic features of socialist enterprises are discussed in terms of capitalist enterprises. Socialist enterprises and capitalist enterprises are similar in some ways and distinctive in others. A similarity is that as economic entities, all enterprises are "cells" in a society's economy. Enterprises are where productivity is located and takes place. Organization, including the socialization of production and the modernization of production technology

pertaining to productivity, are patterns common to all enterprise development. Both capitalism and socialism have a commodity economy; thus, enterprises are both commodity producers and managers who must produce and exchange commodities in accordance with the operating mechanism and the laws of value of a commodity economy, etc. These are all similarities that cannot be differentiated as socialist and capitalist. To "label" common problems, insisting on a distinction between socialism and capitalism, is to commit the error of "leftism". This lesson should not be repeated.

There are differences between socialist enterprises and capitalist enterprises, however; not just differences, but fundamental differences. These differences do not exist in the organization and development of productivity, nor do they exist in the operation of the commodity economy's operating mechanism but in internal production relationships. The most fundamental distinction includes the position and role within enterprises of all staff members and workers, including both those who do mental labor and physical labor. Simply stated, this is a matter of who is the dominant entity in enterprises. Marx made a penetrating analysis of this problem long ago. He said: In capitalist enterprises, personalized capital is the dominant entity. Staff members and workers serve as personnel and workers that capital hires. They are objects in an enterprise. The result is that inanimate labor (dead labor) rules animate labor or, in other words, an abnormal situation exists in which "things" rule "people." People are the most dynamic element in productivity. When people are placed in a passive position in which they are ruled, this is bound to block development of productivity to a high degree. Socialism follows a different path, its public ownership system turning upside down the abnormal situation in which "things" rule "people." Thus, staff members and workers become the dominant entities in enterprises; they become the masters of the means of production, thereby enabling the most dynamic element in productivity—people—to exercise their enthusiasm, initiative, and creativity to the full. This is the only way to develop productivity to the maximum; this is the core and the soul of socialist ideology.

Whether staff members and workers in an enterprise hold a position as dominant entity or object is the demarcation line between socialist enterprises and capitalist enterprises. Modern capitalist enterprises also recognize animate labor—people's important role. They have proposed a "humanistic" management ideology, have adopted numerous reform measures, and have also scored definite successes in arousing the enthusiasm of staff members and workers; however, they positively cannot go beyond this limit to make staff members and workers become the dominant entity in enterprises. Socialist enterprises and capitalist enterprises are bound to be different, and they must be different. To overlook or obscure this fundamental difference is to commit a leftist error. Therefore, staff member and worker dominant entity theory may be said to be a basic feature of socialist enterprises.

#### (4) Realization of the Dominant Entity Position of Staff Members and Workers: Implementation of Broadly Based Democratic Management in Enterprises

In socialist enterprises, staff members and workers are the dominant entity; thus workers can truly become the masters of enterprises. This is not simply a slogan; it must find concrete expression in the enterprise system. This so-called expression in the enterprise system naturally does not mean the various systems directly associated with production, but rather the basic system directly associated with production. Specifically, it has to do with the following five basic systems. The democratization of these five systems makes up broadly based democratic management in enterprises.

##### First, Democratization of the Labor System

The labor system is a constituent method and form of enterprise labor collectives. In socialist enterprises, staff members and workers are the dominant entity; no longer are they hired hands but masters. Thus, the way in which the labor collectives that staff members and workers organize form and regenerate is a question of profound theoretical significance. According to Marx, socialist enterprises must be "partnerships of producers that are free and equal." This is to say that individual workers "freely" choose and enter a given enterprise's labor collective. Naturally, this choice works both ways. It includes both the individual worker's choice of the collective and the collective's choice of the individual workers. Once the choice has been approved, the individual worker becomes one of the "equal" members of the given labor collective. This labor collective is a partnership of these equal members. This classic definition of an enterprise from Marx completely embodies socialist principles, thereby completely eradicating all traces of hired hand exploitation. This classic definition of Marx should become the point of departure and the basis for a socialist labor system. China has yet to devise a *Labor Law*, but should it devise a *Labor Law*, this classic definition will have to be its basis; otherwise, a *Labor Law* having a distinctive socialist character cannot be produced. Of course, China is still in the preliminary stage of socialism during which it is not required that all enterprises have a socialist ownership system. When a public ownership system is the dominant element, this permits all enterprises not under a system of ownership to exist and appropriately develop in their role as supplementary components. The above definition applies only to enterprises that are socialist in character.

Regrettably, China's present labor management departments have not thoroughly explored the necessary theoretical basis for the founding of a labor system. As a result, conceptually and in action, a conscious or unconscious confusion with the ideas and methods of the capitalist hired hand system exists. For example, that labor departments term the labor system a "work force use system" clearly shows muddled concepts. Since staff members and workers are the dominant element in

socialist enterprises, who is using whom in "work force use?" To use workers is to use people. Linking the word "use" to the word "people" has the connotation of hiring, does it not? This muddled concept cannot be completely blamed on today's labor departments, however. It is an expression of the imperfection of the socialist system under the old order. For example, China's enterprises under the system of ownership of the whole people were an appendage of government for a long time. There was no separation between government administration and enterprise management; government directly ran enterprises. Staff members and workers in enterprises under the system of ownership by the whole people were regarded as government staff members and workers. The government recruited workers. In the enterprise system of ownership by the whole people, the so-called "work force use system" was one in which the state recruited staff members and workers, which was similar to the state hiring workers; thus, it is very difficult to eradicate the hired hand concept that exists regarding staff members and workers. As another example, when we instituted the individual contract system, plant managers (or directors) personally signed labor contracts with staff members and workers. No matter how explained, it is difficult to show that the relationship to plant managers (or directors) of staff members and workers is not similar to that of hired hands. This is bound to abet further hired hand concepts among the rank and file of staff members and workers.

I have always advocated the formulation of a labor system in accordance with Marx's classic definition that is truly consistent with the character of socialism, the key points of which are as follows:

An enterprise must have a large group of formal staff members and workers as the dominant entity in the enterprise. The formal workers may also be temporaries; thus they may not be termed permanent workers. The formal workers will also have to have a contract, but they will not sign an employee contract agreement with anyone, but rather a democratically devised *work agreement*. This work agreement is to be democratically drawn up, and once it has been approved, all staff members and workers will have to abide by it jointly. Recognition of the agreement will be a condition for the entry of new staff members and workers. Staff members and workers who repeatedly violate the agreement may, subject to a decision of the enterprise's labor committee, renounce the agreement and leave the enterprise.

In addition to recognizing the agreement, newly taken on staff members and workers may also practice a contract system, but such a contract is a contract between individual staff members and workers and the labor collective; it is not a contract between staff members and workers with a plant manager (or director). On the contrary, the plant manager (or director) is also one of the staff members and workers who not only must likewise abide by the labor agreement, but also must sign a contract with the labor collective. During the contract period, staff members and workers should be in the

nature of "candidate workers" just as party members must go through a candidate period of party membership when they enter the party, however. Once the contract expires, subject to the agreement of both the labor cooperative and the individual staff members and workers, candidate workers may change to formal workers becoming formal members of the labor collective. During the contract period, staff members and workers may also take part in democratic management of the enterprise; however, they are to have only the right to speak, the right to make recommendations, and the right to criticize, but not the right to vote or the right to elect. Those who violate provisions of the labor agreement and the contract during the contract period may, upon the decision of the labor committee, renounce their contract relationship and depart the enterprise.

In addition, enterprises may take on all kinds of temporary workers who are neither formal members of the enterprise's dominant entity nor candidate members of the enterprise's dominant entity.

The presence of these three kinds of workers in the enterprise will shape a mechanism as follows: If the enterprise operates well, the temporary workers will be asked to become contract workers, and contract workers will try to become formal workers upon the expiration of their contracts. This will produce a centripetal and cohesive force that is not only in keeping with socialist principles, but is also in keeping with scientific doctrine for modern enterprise management.

To use the above methods is, in fact, to democratize the labor system, which is an important prerequisite for making the rank and file the dominant entity.

#### **Second, Democratization of the Property Rights System**

The public ownership system is the most essential feature of the socialist system. During the present anti-socialist current, the spears of the opposition are also directed against the public ownership system. The continued existence of socialism requires the continued existence of a public ownership-based society and economy. Whether the form of the socialist system can fully exhibit the superiority of socialism is a serious question whose answer can only be found in a conscientious summarization of historical experiences, however.

Marx's stand in favor of a public ownership system to replace the private ownership system is its scientific basis. The superiority of a public ownership system-based society and economy shows up in two main ways as follows: First, macroeconomically, an economy based on the public ownership system, particularly when it has a huge amount of state-owned assets in being, benefits the planned, proportionally coordinated development of the national economy. Second, microeconomically, as was said above, such an economy can make the workers become masters of the means of production for an arousal of the enthusiasm, initiative, and creativity of the rank and file of staff members and workers that promotes the development of production. Whether these

two great advantages can be brought to bear effectively is very much related to the specific form of the public ownership system, however.

Formerly, we defined the public ownership system as being of two forms, namely the system of public ownership by the whole people (the state ownership system), and the people's collective ownership system. In fact, however, a third form of public ownership system has appeared in China. In addition to the system of ownership by the whole people, and the collective ownership system, two diametrically opposed forms have been shaped. One is the collective ownership system that the constitution provides for, i.e., a cooperative ownership system (now termed a "small collective") in which the workers both work and pool capital. The other is the so-called "big collective" that has gradually taken shape during the past several decades. This big collective is no longer a cooperative ownership system in which the workers raise capital but rather a collective ownership system that labor owns collectively. Its capital has been most accumulated over the years by the enterprise itself instead of coming from funds that the staff members and workers have pooled. If the character of these three basic forms of public ownership were to be defined, the following description might be made.

1. In the system of ownership by the whole people (or state-owned system), assets belong jointly to all laborers nationwide, the state exercising ownership authority on behalf of all workers;
2. In the system of collective ownership (i.e., the big collective), assets belong jointly to all staff members and workers in an enterprise. They cannot be quantified in terms of individuals. Workers in the enterprise collectively exercise ownership authority.
3. In the cooperative ownership system (i.e., the small collective) where assets derive from the pooling of funds by staff members and workers, they are bound to be quantified in individual terms, all the staff members and workers who had a part in pooling the funds exercising ownership authority.

In the foregoing three kinds of ownership, public ownership is in the system of ownership by the whole people, medium in the system of collective ownership, and small in the system of cooperative ownership.

Since assets in the cooperative system of ownership belong to individuals, the key to understanding why this system is not considered a private ownership system rather than a public ownership system is that the portion of shares owned by those who take part in pooling capital is identical or nearly so. More importantly, those who pool the capital are also workers in the enterprise, at the same time. Their returns in the form of share dividends are collectively created value and not surplus value that others created.

These three different levels of public ownership eradicate exploitation equally, but the macroeconomic and microeconomic goals mentioned above that they seek to attain are very different.

The system of ownership by the whole people provides the state with state-owned assets that it can control directly, and this is an important factor that is extremely beneficial in the macroeconomic coordinated development of the national economy. In the microeconomy, however, its drawbacks in changing an abnormal situation in which things rule people are extremely great. In the system of ownership by the whole people where only the state can exercise authority on behalf of the whole people, and where the staff members and workers in an enterprise remain unable to effect a direct link with the means of production, even though exploitation does not exist, neither has the dominant position of staff members and workers come into being. The situation remains like that in capitalist enterprises in which capital (even though that capital has changed from being privately owned to being state owned) is the dominant entity in an enterprise, and staff members and workers are like hired hands of the state. They are objects in enterprises. This greatly weakens the dominant position of staff members and workers, and it hurts the formation of class consciousness among staff members and workers. It must be said that this is a prominent shortcoming that has not been sufficiently improved in the socialist system.

The way to overcome the foregoing shortcomings is to bring the collective ownership system and the cooperative ownership system into enterprises currently under the system of ownership by the whole people, adopting the share system to bring about a system of public ownership that combines the system of ownership by the whole people, the collective ownership system, and the cooperative ownership system. For important enterprises affecting the national interest and the people's livelihood, the state can control the shares. For example, the state might hold more than 60 percent of shares while the collective and cooperative systems of ownership hold between 30 and 40 percent. Such a reform would both maintain the leading position of the system of ownership by the whole people while between 30 and 40 percent of equity would belong to the staff members and workers of enterprises. Thus, staff members and workers would become part owners of the assets in their enterprises. This would greatly increase the degree of staff member and workers concern about the enterprise's assets and accumulations, and it would help increase both staff members' and workers' class consciousness, and their sense of responsibility as masters in their own house. Such a reform might be said to be a democratization of the property ownership system.

#### Third, Democratization of the Operating System

As the dominant entity in enterprises, staff members and workers undoubtedly hold decision making authority over the major matter of the enterprises' production operations. In collectively owned and cooperatively

owned enterprises, this poses no problems at least in theory. The key issue is whether in enterprises under the system of ownership by the whole people staff members and workers should collectively exercise decision making authority about operations. A very great controversy has raged over this issue for many years.

The traditional view holds that under the system of ownership by the whole people ownership is exercised by the state; hence, operating authority should also belong to the state. This gets into the various abuses of "no separation of government administration and enterprise management." With reform, emphasis has been on a policy of separation of government administration and enterprise management, and separation of ownership and operating rights within the state economy for an expansion of the autonomy of enterprises. Whether this autonomy should be turned over to the plant manager (or director) or to staff members and workers as a whole remained controversial, however. The controversy ended with transfer to the plant manager (or director), and it was on this basis that the "plant manager (or director) responsibility system" was formulated. This was closely followed by controversy about whom the plant manger (or director) represents. Does he represent the state or the staff members and workers? The result of the controversy was that he represented the state. In order to be democratic, staff member and worker "participation" in management was also instituted that provided that the democratic management rights of staff member and worker congresses have substantial decision making authority on matters pertaining to the personal interests of staff members and workers. On major matters of enterprise production operations, however, the staff member and worker congresses possess only "deliberative" powers; they cannot have examination and approval authority. This distinction between "deliberation" and "approval" continues, in fact, to put staff members and worker in the position of being objects rather than the dominant entity.

Actually, this traditional point of view consciously or unconsciously follows capitalist legal rights concepts. Personified capital is the dominant entity in enterprises as well, but ownership of the capital is in the hands of the state rather than individuals. When capital is the dominant entity, the owner of the capital (the state) hold ownership authority. In accordance with the principle of separation of ownership and operating rights within the state-owned economy, the owner of capital (the state) confers operating authority on its agent, the plant manager (or director), but staff members and workers are in the position of objects. Thus, they can only take part in some enterprise manager in the capacity of "participants."

Our statement that this traditional concept actually follows capitalist legal rights concepts can be validated by yet another situation. In order to allay confrontation and strife between labor and capital, modern capitalist enterprises have not only urged staff members and workers to hold shares, thereby having ownership rights,

but they have also adopted measures to get staff members and workers to "participate" in management. The so-called "Joint Decision Law" (whereby major issues were jointly decided by shareholder representatives and representatives of staff members and workers) that was formerly employed in West Germany was a classic example of capitalist enterprises efforts to get staff member and worker participation in management. Japanese enterprises highly approve China's proposal for two participations, one reform, and a three-way combination [close cooperation among workers, cadres, and technicians], and they have also adopted many measures to get staff member and worker participation in management. The reason that capitalist enterprises can promise and even go to great lengths to develop staff member and worker participation in management is that staff members and workers are limited to "participation" in management. This does not remove limits on their positions as object, nor does it threaten the existence of capitalism. As socialist enterprises, are we also to limit ourselves to this step? Socialist enterprises must go beyond this limit to enable staff members and workers to become the dominant entity in enterprises. They should not "participate" in management, but "be in charge" of management. This is the only way to make a fundamental distinction from capitalist enterprises.

Democratization of the operating system of socialist enterprises means principally that staff members and workers democratically decide major production and operating problems in enterprises after which the plant manger (or director) provides centralized direction in organizing implementation of the decisions. This is the expression in enterprises of the system of democratic centralization.

Marxism has always maintained that a highly socialized modern industry must have highly centralized and unified command authority. Institution of a plant manager responsibility system is entirely necessary. Nevertheless, this does not rule out democratic decision making on some major problems in production operation. More scientific decision making is inseparable from more democratic decision making. Collective study and democratic discussion of plant manager (or director) proposals on major problems can only be better founded and more correct. Policy matters that the rank and file of staff members and workers have decided and approved can translate the proposals of the plant manager (or director) into the shared wishes of all staff members and workers. Decisions that all staff members and workers have themselves made must also be resolutely and fully implemented as a matter of duty. What was formerly the "wisdom of the masses," becomes the "strength of the masses." In fact, all workers become a powerful backup force for plant manager (or director) conduct of correct policies. Therefore, democratization of the decision making process not only does not interfere with the plant manager responsibility system, but rather provides optimum conditions for the effective exercise of the plant manager responsibility system.

#### Fourth, Democratization of the Remuneration System

To each according to labor is a basic principle of socialism. But just how remuneration according to labor should be done is a theoretical and practical problem that needs further study.

In his time, Marx envisioned the abolition of commodities and no practice of a commodity economy once a socialist public ownership system was instituted. Thus, the labor of each worker would directly become a part of total social labor, and remuneration according to labor would mean that each person could take back from society material remuneration corresponding to the labor he or she provided society. Several decades of the practice of socialism shows that during the socialist historical stage, the commodity economy cannot be abolished, but that a socialist planned commodity economy must be instituted. This is a major expansion of Marxism. Since a commodity economy is necessary during socialism, the work of individual laborers cannot directly become a portion of total social labor, nor can a corresponding amount of remuneration be taken directly from society. Therefore, I believe that under a socialist commodity economy, remuneration according to labor requires the practice of "two-tier remuneration according to labor," meaning that society must first of all institute remuneration according to labor in enterprises according to the effective positive results of labor that enterprises collectively provide. This is one tier of remuneration according to labor. Next, enterprises will redistribute the total amount available for remuneration within enterprises according to the labor contribution of individual staff members and workers. This is the second tier or remuneration according to labor. The wage system that links wages to returns in use in numerous enterprises today is actually an embryonic form of this two-tier system of remuneration according to labor.

The traditional method used in China was to treat enterprises as appendages of the government, placing them under direct state administration and management, the state hiring on staff members, making them similar to state hired hands as was mentioned above. The state was also in charge of their remuneration from A to Z, directly deciding the amount of remuneration of every staff member and worker. Inevitably this produced two situations of "eating out of a large common pot," one between one enterprise and another, and the second between one staff member or worker and another. Despite reform of the remuneration system in this or that way, the old set pattern in which the state directly compensated each staff member and worker was never abandoned. Only institution of two-tier remuneration can demolish egalitarian eating out of a large common pot. By following the principle of two-tier remuneration according to work, when the state wants to regulate and control the percentage of national income for consumption and accumulation, it can set an enterprise consumption fund for enterprises in different trades and industries that is a percentage of either gross income or net income to serve as a standard for first tier remuneration

according to work. Thus, when the water rises all boats will rise, and when the water falls all boats will fall, neither ceilings nor floors being set. This is the only way to destroy the practice of eating out of a large common pot among enterprises. As regards the uses to which enterprises put the total amount of the consumption fund they receive, on matters regarding the further reapportionment within each enterprise such as how great a percentage to use for collective consumption, how great a proportion to use for individual consumption, and how to go about compensating each individual according to labor, etc, the enterprise work collective must make a democratic decision instead of the state ruling on everything from A to Z. This is the only way to demolish the situation of eating out of a large common pot among staff members and workers. Thus, the two-tier remuneration according to labor both solves attendant problems in the remuneration system and the socialist commodity economy, and also reflects the democratization of the remuneration system.

#### Fifth, Democratization of the Leadership System

Under the socialist commodity economy system, enterprises are both socialist commodity producers and operators. The enterprise leadership system is divided into levels from top to bottom. It has a two-tier system of organizations having ownership authority and organizations having operating authority. Differentiated in terms of the leadership mechanism, it has two systems, one for democratic management, and one for collective direction. The leadership system must make regulations in keeping with socialist principles in the following four regards:

##### 1. On the ownership rights organization.

Every enterprise has an owner, and the organ that exercises the owner's ownership rights is the ownership organization. It exercises the ownership function in accordance with the principle of a separation of ownership rights and operating rights. It is the enterprise's supreme authority. Different kinds of ownership systems have different kinds of ownership organizations.

Formerly, all enterprises in China under the system of ownership by the whole people were of a single kind of system of ownership by the whole people that was equivalent to a sole proprietorship enterprise having only one shareholder. Thus, there was no need for an ownership organization. In addition, government administration was not separate from enterprise management. Usually, the administrative organ in charge served as the organization holding ownership authority. If property rights are democratized, except for ownership of state-owned assets, enterprises issuing collective shares and staff member and worker cooperative shares for the beginning of a pluralization of property rights, even if the state holds a commanding position in its control of share rights, some form of ownership

authority organization will have to be established, possibly a shareholder association or a shareholder conference of delegates, or possibly an assets management committee, etc.

In accordance with the principle of the separation of ownership and operating rights within the state-owned economy, the functions of the ownership rights organization would be mostly to set the enterprise's operating goals and its direction of development, to determine when an enterprise should be founded and ended, when enterprises should be linked in partnership and separated, the augmentation of assets and the distribution of property rights, and the appointment and discharge of principle persons responsible for production and operation, etc. One might say that it holds the an enterprise's highest level of decision making authority on "general plans." Should enterprises under the system of ownership by the whole people institute staff member and worker shareholding, staff members and workers would then have their own shareholder delegates to take part in decision making at this level. If the enterprise is of the collectively owned or cooperatively owned kind, the staff member and workers council can act as the organization having ownership authority, directly executing the decision making authority of this level.

## 2. On the operating rights system.

The operator exercises operating rights in accordance with the principle of the separation of ownership and operating rights within the state-owned economy. The person in charge of operations may be a "singular number" (a plant manager or director), or a "multiple number" (a board of directors or a staff members and workers council). The prevailing system in China today is the plant manager responsibility system in which a management committee is established under leadership of the plant manager. This council serves only in a staff capacity to the plant manager. It is a non-democratic decision making organ; thus it cannot be considered to be an organization holding operating rights. Actually, this system practices a "singular number" operating responsibility system. Democratization of the operating system would require a "multiple number" operating responsibility system, and the establishment of a organization holding operating authority, the staff member and worker collective bearing responsibility for production operations. This collective could elect or engage an outstanding enterprise management expert to function as leader, founding a highly centralized plant manager (or director) responsibility system on democratic decision making. Were operating authority to be vested in staff members and workers as a body, the staff members and workers council could serve as the operating rights organization, but its functions would be limited to making "strategic" decisions about major enterprise problems. Overall direction of day-to-day production operation decision making authority and implementation would be the full responsibility of the plant manager (or director). Were a share system to be instituted, the board of directors could serve as the organization

holding operating authority. Democratization of the operating system would require that the board of directors provide for a certain percentage of staff member and worker directors to take part in strategic decision making at board meetings.

## 3. On the democratic management system.

Democratization of the operating system naturally does not mean a leaderless group practicing ultra democracy, but rather the implementation of a system of democratic centralism. Therefore, both a democratic management organizational system and an organizational system for central direction are needed as a leadership mechanism, each having its own function but effectively linked.

At the present time, a contradiction exists in the enterprise leadership system that has yet to be rationally handled, and that is the relationship between the enterprise party organization and those responsible for administration. The enterprise party organization is designated the enterprise's political leadership nucleus, while, at the same time, the plant manager (or director) is designated the center of the enterprise. Just what the relationship is to be between this "nucleus" and this "center" remains very unclear. In addition, the trade union system also stresses the role of staff members and workers, maintaining that staff members and workers are the "heart" of an enterprise. So what should be the relationship among this "nucleus," "center" and "heart?" The way to solve correctly this persistent and difficult problem is to deal separately with the relations of all parties in accordance with both the democratic management system and the central direction system.

Democratic management means that the staff members and workers are the dominant entity, staff members and workers holding decision making authority on important enterprise matters. A major task of the enterprise party organization is to work with assistance from the trade union on the organization, education, and direction of staff members and workers in correctly executing their democratic rights and duties as masters. Therefore, relations among the party, the trade union, and the rank and file must be linked in the democratic management organizational system. The specific way to do this is to use the democratic election of staff member and worker representatives to elect the CPC committee secretary to serve as chairman of the staff member and worker council, and the chairman of the trade union to serve as deputy chairman of the standing committee. This is not prescribed by law, but rather is the inevitable result of the party secretary and the trade union chairman having the support of the rank and file of staff members and workers. Should a party secretary not be accepted and drop out of the running, the party should consider whether this secretary is competent, carrying out a CPC committee reorganization thereafter. This handling also expresses the masses supervision of the party. With the CPC committee secretary serving as chairman of the staff members and workers council, and the chairman of the trade union serving as the deputy chairman of the

staff members and workers council standing committee, the party organization can enlist the trade union as an assistant in the direct organization, education, and leadership of the rank and file in carrying out their rights and duties as masters, and also make decisions about major problems in the enterprise. Once the staff members and workers council has approved the correct measures that the administrators have proposed, it has responsibility for mobilizing all the staff members and workers to make sure that they are carried out. When administrators propose measures that are inappropriate or incompletely thought out, the staff members and workers council can play a supervisory role in discussing and revising them in advance. Once they have been revised, examination and supervision may still be exercised after the advent in the process of their implementation. This role of the staff member and workers council is carried out under leadership of the party organization; therefore, it is a means whereby the party plays the party's supervisory role over administration through the democratic management organ that the staff member and workers council is.

#### 4. On the centralized command system.

From a foundation of staff member and worker democratic management, enterprises set up a highly centralized production and operations command system headed by the plant manager (or director). Thus, in an enterprise's total production and operating process, the plant manager (or director) is in a central position. This is a necessary objective requirement for large socialized production enterprises.

The relationship among the plant manger (or director), the deputy plant manager (or deputy director), and chief engineers at various levels in the plant is that of leaders and the led. One must not suppose it to be a relationship among equals. Likewise, from the plant manager (or director) to those in charge of all functional departments, offices, branch plants, and workshops, on down to grass-roots organizations, the relationship is one of superiors and inferiors. Therefore, every work position and every staff member and worker throughout a plant from top to bottom constitutes a command system. Within this system, organizational discipline must be maintained, those at a lower level subordinating themselves to those at a higher level, and parochial interests taking a back seat to overall interests. Should a staff member or worker be selected a staff member or worker representative, at staff member and worker council meetings, he or she must represent the voters in exercising their democratic rights and duties as masters in their own house. Upon returning to his or work station, he or she may express dissenting views or make suggestions for improvements of higher level instructions or decisions, but he or she must obey orders and accept direction in action. This dual status of staff members and workers is a concrete expression of the principle of democratic centralism.

#### (5) Conclusions

The 1990's is a key period for reform, opening to the outside world, and reform in China. At a time of changes

internationally when socialism is facing grim challenges, the Chinese people's adherence to the socialist role under party leadership holds major historical and international significance. At this time, the CPC Central Committee's continued emphasis on wholehearted reliance on the strategic policies of the working class holds major real significance. Wholehearted reliance on the working class cannot be merely a motto that expresses a principle, however, and it is not only a matter of improving ideological understanding. It must be made an important principle for the intensification of reform. Concrete actions must be taken to reform the political and economic systems so that the rank and file of staff members and workers understand the class status and role they occupy in real life, and thus regard the building of the socialist system as their own historical mission. Only in this way can wholehearted reliance on the strategic policy of the working class be truly translated into reality.

Enterprises are both the location of productivity and the direct embodiment of the social system. Enterprises must be the focus and the starting point for the expansion of productivity. The enterprise system must likewise be the focus and the starting point for the building and steady perfection of socialism. Taking staff member and worker dominance theory as the central ideology to establish the socialist character of enterprises, thereby stirring the enthusiasm, initiative, and creativity of hundreds of millions of the rank and file of staff members and workers not only holds major economic significance in increasing enterprise vitality, but also hold major political significance in defending socialism.

This article is solemnly offered in commemoration of the 70th anniversary of the founding of the Communist Party of China.

## PROVINCIAL

### Guangdong Statistics Show Booming Economy

92CE0081A Guangzhou NANFANG RIBAO in Chinese  
18 Oct 91 p 1

[Article by Chen Mingjin (7115 6900 3160) and Luo Yuchao (5012 5940 3390): "The Information of Macroeconomic Analysis of the Provincial Statistical Bureau Shows That the Quality of Guangdong's Economic Operations Has Changed; the Stability of Economic Growth Increased; and the Economic Returns of Enterprises Gradually Improved"]

[Text] The latest information of macroeconomic analysis provided by the provincial statistical bureau shows that following an all-round recovery in the forth quarter of 1990, Guangdong's national economy continued to develop steadily in the first three quarters of 1991. Calculated on the basis of cumulative total by the end of September, Guangdong achieved 147.109 billion yuan of total industrial output value, up 27.3 percent from the

corresponding period of 1990; units under state ownership achieved 14.91 billion yuan of fixed-asset investment, up 27.7 percent; total retail sales volume of social commodities reached 61.905 billion yuan, up 16.7 percent. At the same time, the province's foreign economic and trade relations made satisfactory achievements, financial income increased, commodity price and monetary supply were stable, and the quality of economic operation as a whole somewhat changed.

Statistical information shows that Guangdong's economic operations in the first three quarters of 1991 bear the following main characteristics:

- The stability of economic growth was increased. The increase rate of total industrial output value was similar in every quarter. The total retail sales of social commodities indicated a trend of steady increase.
- Various economic factors developed jointly. Between January and September, state-owned industries increased 20 percent as compared to the corresponding period of 1990, collectively-owned industries increased 21.8 percent, and other industries dominated by enterprises with "three capital sources" increased 48.8 percent. The newly increased output value of state-owned industries accounted for 34.6 percent of the newly increased output value of all industries, up 7.5 percentage points from the corresponding period of 1990.
- Enterprises' economic returns gradually improved. Calculated on the basis of cumulative total in the period between January and September, the labor productivity of the whole staff of industrial enterprises practicing independent accounting increased 18.4 percent as compared to the corresponding period of 1990. The sales income of budgetary industrial enterprises increased 20.7 percent, the amount of tax and profit delivery they achieved increased 29.1 percent, and the scope of enterprise deficit was reduced by 14 percent. In the first half of 1991, the sales tax and profit of 695 large- and medium-sized state-owned industrial enterprises increased 17.9 and 67.9 percent respectively.
- The supply capacity of productive factors somewhat increased. Calculated on the basis of cumulative total by the end of September, in spite of drought-induced reduction of hydro-electric power, Guangdong's power output reached 28.442 billion kwh, up 13.7 percent from the corresponding period of 1990, and the output of products of the raw materials industry increased on the average of over two digits. The increase of the balance of savings deposits of banks was 17.919 billion yuan higher than that in the corresponding period of 1990. Among this, the increase of the balance of enterprises' savings deposits was 8.584 billion yuan higher.
- The structure of new investment was further improved. Since the beginning of 1991, Guangdong's fixed-asset investment has continued to slant toward basic industries. In all the fixed-asset investment

made by state-owned units in the first three quarters of 1991, the proportion of investment of agriculture, forestry, animal husbandry, fisheries, water conservation, energy and raw materials industries, transportation, postal service, telecommunications, and cultural, educational, scientific, and health undertakings increased from 55.4 percent in the corresponding period of 1991 to 65.1 percent.

—The export-oriented economy maintained the momentum of growth. Calculated on the basis of the cumulative total by the end of September, the output value of Guangdong's industrial exports reached 43.56 billion yuan, up 26.2 percent from the corresponding period of 1990, accounting for 29.6 percent of total industrial output value.

The above situation shows that the series of slight macroeconomic adjustment measures that Guangdong adopted sometime ago have reached the desired effect. In the next few months Guangdong's economy will maintain a momentum of steady growth, and its major economic indexes will satisfy or exceed the demand of the plan.

However since profound contradictions such as the existence of strained economic relations and irrational structures in economic life have not been alleviated, some factors of instability are still present in current economic operations. The problem of overstocked products accumulated over the past few years has not been substantially improved. The problem of delayed payment between enterprises is fairly prominent. Large- and medium-sized state enterprises lack vitality. The situation of poor economic returns in some enterprises and industries has not been changed substantially.

#### Guangzhou CPC Conference Studies State Enterprises

92CE0081B *Guangzhou GUANGZHOU RIBAO*  
in Chinese 13 Oct 91 pp 1,2

[Article by reporters He Xiangqin (0149 0686 5367), Guan Yawen (7070 7161 2429) and correspondent Shi Weizong (0670 0251 1350): "The Main Way Out Lies in Deepening the Reform; the Municipal CPC Work Conference Studies Ways To Further Improve Large- and Medium-sized State-owned Enterprises; Zhang Hanqing (1728 3352 7230) Points out the Need To Fully Develop Enterprises' Political Advantages and Improve the Work Style of Leaders of Large- and Medium-sized Enterprises"]

[Text] A work conference of the municipal CPC Committee which was called mainly to study ways to improve large- and medium-sized state-owned enterprises was closed on 12 October 1991.

Zhang Hanqing, deputy secretary of the municipal CPC Committee, made a closing speech at the conference on 12 October. He emphasized the need to have a profound

understanding of the significance of improving large- and medium-sized state-owned enterprises. Large- and medium-sized state-owned enterprises are an important pillar of the national economy. Judged from the situation of Guangzhou Municipality, although only 5.48 percent of industrial enterprises practicing independent accounting in Guangzhou are large- and medium-sized state enterprises under the administration of the municipality, their total industrial output value in 1990 accounted for 36.69 percent of total industrial output value of the municipality. Their tax payment and profit delivery accounted for 31.59 percent of Guangzhou's total. They are an important source of financial income for the municipality. A fairly large portion of large- and medium-sized state enterprises in Guangzhou are enterprises of basic industries such as energy, raw materials, and equipment. They are closely bound up with the development of other economic sectors. They also have many important and critical equipment and a fairly strong technical force. They have 157 technological development departments and over 27,000 engineers and technicians. The 25 hot-selling products designated as major points of development in Guangzhou's Eighth Five-Year Plan are basically distributed among large- and medium-sized state enterprises. They play a decisive role in fulfilling the magnificent goals of Guangzhou's Eighth Five-Year Plan and the 10-Year Plan. All departments must regard improving large- and medium-sized state enterprises as an important task, give it first priority, equate it with the focal point of economic work and the central link of reform, and conscientiously do a good job in it.

Zhang Hanqing pointed out that the main way out for improving large- and medium-sized state enterprises lies in deepening the reform. For this, he emphasized: 1) We should firmly implement the "Law of Enterprises" and enable enterprises to really become social commodity producers and managers who have decision-making power in management and assume sole responsibility for their own profits and losses. To implement the "Law of Enterprises," currently we should work in two areas: One is that relevant departments of the municipal government should change their concept and management method in accordance with the principle of separating government functions from enterprise responsibilities. While strengthening macroeconomic management, they should create, in the spirit of more service and support and less interference and restriction, a favorable external environment for the production and management of enterprises. The other is that enterprises should properly exercise the decision-making power granted to them by the "Law of Enterprises," overcome their dependence on government departments, and seek survival and development amid market competition. 2) We should gradually establish, through the internal reform of enterprise, an operational mechanism that combines the planned economy and regulation by market. All large- and medium-sized state enterprises should establish an operational mechanism suitable for self management, including establishing and perfecting enterprise's market

information gathering and feedback system, further improving the plant director responsibility system, and establishing and perfecting the management systems of planning, marketing, pricing, supplies, funds, organizations, personnel, labor, and distribution so as to increase efficiency in management. We should establish an incentive mechanism favorable for arousing workers' enthusiasm, including reforming enterprise's employment system, smashing the "iron armchair," conscientiously enliven internal distribution, and earnestly overcome the defect of "eating from the same big pot." We should also establish a self-restraining and self-supervising mechanism, ensure that enterprises adhere to the direction of socialism, and properly handle the relations of interest among the state, enterprises, and workers. 3) We should concentrate our energies on readjusting enterprise structure and increasing economic efficiency. To do so we need to focus on two categories. First, we should adopt measures to close, suspend the production of, merge, and transform those enterprises which cannot continue because their products are unmarketable, they have been losing money for a long time, and their assets are not enough to pay off their debts. As for those enterprises whose products can meet market needs but whose production and management are in trouble due to various reasons, we should help them overcome the difficulties. Second, we should vigorously organize and develop enterprise groups, form specialized production and production of scale, and develop the economy of scale of enterprise groups. 4) We should overcome enterprise's short-term behavior and speed up enterprise's technological progress. While extending enterprise's contract period from two to five years, we should study ways to establish an intermediate-and long-term planning and management system. Enterprise's contract period should be made to coincide with its intermediate- and long-term plan. The two should be considered together. If an intermediate- and long-term plan covers different contract periods, it is necessary to determine the contractor's responsibility according to the progress of the plan. We should also establish and perfect enterprise's technological progress evaluation system.

Zhang Hanqing pointed out the need to fully develop the political advantage of enterprises when improving large- and medium-sized state enterprises. First of all it is necessary to develop the function of political nucleus of party organizations in enterprises. Enterprises' political organizations should do a good job in the following four areas: securing the pass of orientation for management and reform; strengthening ideological and political work and improving enterprises' ideological progress; strengthening the party's self-improvement; and developing the role of fighting force of party organizations and the vanguard role of party members. At the same time, it is necessary to develop the role of master of workers. On the one hand, enterprises' leading cadres should firmly establish the concept of wholeheartedly relying on workers in the management of enterprises, properly handle the relation between the central position of plant directors and managers and the master status of workers,

and organically combine strict control with respect and reliance for workers. On the other hand it is necessary to carry out extensive and in-depth ideological education among workers to raise their awareness of being their own master so that they can make demands on, encourage, regulate and restrict themselves as their own masters. Only by fully developing the political nucleus role of party organization and wholeheartedly relying on the working class can we implement in an all-round way the "Law of Enterprises" and do a good job in large- and medium-sized state enterprises. Zhang Hanqing also emphasized the need to improve leaders' work style in order to make a success of large- and medium-sized state enterprises. Leading cadres at all levels, especially in enterprises, must be in good spirit, overcome fear for difficulties, be confident, and seize the opportunity to work in a down-to-earth manner. All departments at the municipal level and departments in charge of enterprises should strengthen the concept of the public servant and advocate the spirit of voluntarily serving grassroots units. As far as enterprises are concerned, it is particularly necessary to stress the need to rely on themselves, look inward, work on the inside, and concentrate on changing internal mechanisms. To improve enterprises' quality in an all-round way, we should develop the spirit of doing solid work. We should implement in real work whatever we have decided, concentrate on the implementation of various tasks and measures, and develop the spirit of reform and blazing new trails. To do a good job in large- and medium-sized enterprises, we will face many new situations and problems. Because of this we should proceed from reality, open up new trend of thought, and find new ways. Leaders at all levels should adhere to the principle of seeking truth from facts regardless of what the book and the superior says, and dare to explore and blaze new trails. If everybody in the municipality can do so, the "grand chorus" of Guangzhou's economic construction will get better and better, and the large- and medium-sized state enterprises in the municipality will certainly be a success. At the conference of 12 October Zhang Hanqing also briefed participating cadres on current situation. Other municipal leaders including Li Ziliu [7812 1311 3177], deputy secretary of the municipal CPC committee and mayor, and Wu Mengzhao [6762 1125 0340], deputy secretary of the municipal CPC committee, attended the conference. At the conference, Huang Weining [7806 0251 1337], deputy mayor, relayed the guidelines of the Sixth Provincial Work Conference on Mountainous Areas. Also speaking at the conference were responsible comrades of the municipal planning commission, the municipal commission for the inspection of discipline, the municipal restructuring commission, and enterprises. Through conscientious discussion, participating comrades unified their understanding of how to improve large- and medium-sized state enterprises, boosted their confidence, and proposed many good ideas and proposals.

### **Heilongjiang Housing Reform Conference Ends**

*SK2611064991 Harbin Heilongjiang People's Radio Network in Mandarin 2200 GMT 25 Nov 91*

[Text] At the second provincial housing system reform work conference that ended on 25 November, Zhou Tienong, provincial vice governor, stressed: In line with the principle of proceeding from different actual conditions and individually making policy decisions, the localities should work out feasible housing reform programs; form, as soon as possible, a major climate of reforming the housing system across the province; and realize, at an early date, the objective that each household has its own house.

In regard to the issue of understanding and implementing the provincial housing reform program, Zhou Tienong, provincial vice governor, emphatically pointed out: First is the issue of giving subsidies to cover the rise in rent. All localities should persist in the policy of giving appropriate subsidies for the rise in rents, and take into consideration the dwellers' ability to pay the new rent. Localities are allowed to give either a small subsidy or no subsidy at all. The phenomenon of giving large subsidies for small rises in house rents must strictly be eliminated. Second, the issue of marketing public houses. Those who purchase public houses at market prices will completely possess the property rights of public houses. The staff members and workers can purchase public houses within the areas prescribed by the province at standard and preferential prices, and possess parts of the property rights. The individuals, who enjoy the subsidies granted by the governments and the units in building their houses with the funds collected by society, with others' cooperation, or out of their poverty, will partly possess the property rights. Third, the issue of implementing the housing reform programs. All units, no matter what levels they are, should implement the housing reform policies and programs of the local governments. The units directly under the central authorities, the province, and various prefectures, if they have special conditions, are allowed to formulate specific methods and submit them to local governments for approval. The local people's governments should guarantee that the units directly under the central authorities, the province, and the prefectures have the right to use of capital.

### **Heilongjiang Housing Reform Shows Results**

*SK2711024091 Harbin HEILONGJIANG RIBAO in Chinese 24 Sep 91 p 1*

[Article by Wu Peizhen (2976 1014 4176) and Pan Guangtao (3382 1639 7290): "Housing Reform Launched in Many Cities and Counties of Heilongjiang"]

[Text] So far, 42 cities and counties of Heilongjiang have conducted housing reform and achieved encouraging results in many areas.

In the past four years, by selling houses, raising funds to build houses, and encouraging individuals to build houses with their own funds, the cities and counties conducting housing reform expanded urban living space by 16.73 million square meters, equivalent to building a new large city with a population of nearly 2 million when calculated based on the current level of living conditions. In addition, funds collected from selling houses and from individuals totaled 4,538,500,000 yuan, equivalent to 80 percent of Heilongjiang's total investment in urban housing construction in the same period, 160 percent of the housing investment of the 42 cities and counties conducting housing reform, and 35 percent of the personal savings deposits of the 42 cities and counties.

For housing reform, the province adopted the major methods of selling old houses, selling commercial houses, raising funds from various quarters to build houses, and subsidizing individuals who want to build houses with their own funds.

The housing reform has notably improved people's living conditions. Thatched, low, and dangerous houses have been substantially reduced in the 42 cities and counties. Their per-capita living space increased by two square meters in the four years. In Baoqing County, the per-capita living space increased from 5.3 square meters to 12.54 square meters. In the past, Harbin City was unable to solve the housing problems of exceptionally difficult households at all. However, it now can solve the problems of one-third of its exceptionally difficult households in one year.

The housing reform has facilitated economic development. In the early period of the housing reform, Heilongjiang's construction workers were underutilized and the amount of work lost each year was valued at 2 billion yuan. Now the amount of increased work every year is worth more than 2 billion yuan. Construction enterprises of the county increased from two to 46. In one year alone, Hulan County's building material outlets increased their employees by more than 2,000. The cities and counties conducting housing reform have witnessed development in their building material production, transportation, and environmental sanitation.

The housing reform has strengthened the unified planning for land use. By raising funds to build houses, the 42 cities and counties conserved 1,400 hectares of land. The head of Hulan County said: "Before the housing reform, 10 to 20 persons stood in the doorway every day to ask for approval for land use in scattered housing construction, but now no one is asking for land use."

The housing reform has boosted the enthusiasm of individuals, collectives, and governments and the shortage of funds for the housing construction by governments and departments has been greatly eased. In the past, Hulan County's financial department could invest merely 200,000 yuan in housing construction every year. In the past four years, however, it raised more than 100

million yuan. If making investment in housing construction by itself as in the past, the Harbin City's Dongbei light alloy plant, whose employees and their dependents total 100,000, will have to spend 20 years to resolve its housing difficulties. By way of raising funds now, it can solve the problem in only four years.

Many enterprises, institutions, and individuals have praised the housing reform. Many people said: "In the past when houses were built individually, every house had a chimney. But now when houses are built collectively, multi-story houses with central heating are built without chimneys. The houses look nice and are good for health." The director of the Longjiang electric machinery plant in Hulan County said: "In the past, people had to spend many years before they were allocated funds with which to build houses. Now they pool funds to build new houses every year. Staff members and workers have hope every year."

## FINANCE, BANKING

### Problem of Unpaid Back Taxes Aired

92CE0085A Beijing ZHONGGUO SHUIWU BAO  
[CHINA TAXATION NEWS] in Chinese  
3 Oct 91 pp 1, 2

[Article by ZHONGGUO SHUIWU BAO reporter Fan Haijian: "Ending the Vicious Cycle of Back Taxes"]

[Text] The problem of back taxes is an unseen vicious cycle complicating healthy enterprise development and threatening overall realization of budgetary income. The more than 20 billion yuan in taxes currently in arrears is unprecedented.

### Why Does the Amount of Back Taxes Remain So High and Not Decline?

It is reported that the amount of taxes in arrears nationwide has increased each month in 1991. At the end of July, total back taxes nationwide was 21.552 billion yuan, an increase of 9.219 billion yuan compared with the beginning of the year and a 74.75 percent rise. Compared with the same period in 1990, this was an increase of 3.05 percent. The 1991 increase not only came earlier than in previous years, the abrupt speed with which it increased was unexpected. In examining the data, we see that the principle industries in arrears are cigarettes, metallurgy, television sets, textiles, coal, chemicals, forestry, and sugar. The largest amounts owed are on industrial and commercial receipts and enterprise earnings. Why, then, does the amount of back taxes remain so high and not decline?

*First, it has been impossible to obtain payment on large quantities of goods, giving enterprises no alternative but to default on their taxes. The deep contradictions underlying economic activity have yet to be resolved, and this has led to laxity in settling accounts. Since 1989, the problem of nonreceipt of payment for goods has become*

increasing serious. Total goods shipped out and in transit from industrial enterprises within the state budget at the end of July increased 34 percent compared with the same period in 1990. Total "triangular debt" nationwide climbed from 120 billion yuan in 1990 to 280 billion yuan. Because payment on large quantities of goods could not be obtained on time, some enterprises, to maintain production, defaulted on their taxes to the state. It is reported that China National Technical Import Corporation alone defaulted on as much as 1.1 billion yuan in government taxes because of nonpayment for goods. The Sichuan Changchengte Steel Company has suffered 680 million yuan in unpaid goods and owes 130 million yuan in taxes. The Hohhot City tobacco factory and the Jartai salt factory, which suffered 175 million yuan in unpaid goods, each owe 50 million yuan in back taxes.

*Second, rising costs, declining efficiency, increased losses, and nominal profits but actual losses have led some enterprises to retain funds they should have paid as taxes.* Even though production has risen and sales increased this year, decline in efficiency has not been reversed. Judging from the situation as reported at the national conference on "triangular debt," overt and hidden losses together came to approximately 100 billion yuan in 1990. Consequently, some enterprises defaulted on their taxes on a large scale. The cigarette industry was 6.283 billion yuan in arrears. The main reason for this was that they blindly increased production and their expenses grew. As a result, it was impossible to pay some of the taxes that should have been paid. This created large-scale delinquencies by enterprises which used deficit accounts to default on their taxes.

*Third, with finished products seriously overstocked, defaulting on taxes is being used to maintain production turnover.* Overstocking from enterprise production is still a serious problem. By the end of June 1991, finished goods on hand from industrial enterprises at the county level and above amounted to more than 80 billion yuan. Because the finished products cannot be sold, they tie up production funds. If enterprises want to maintain production, in addition to defaulting on their payments for goods, they appropriate some of the tax money.

*Fourth, if funds are not implemented for enterprises to carry out basic construction and technical renovations, they appropriate tax money.* In 1990, there was a partial gap of 51.2 billion yuan in funds for investment in fixed assets and in units under ownership of the whole people and under collective ownership. This partial gap relied partly on nonpayment for goods and partly on appropriating tax money. In carrying out technical renovations, Anshan Iron and Steel Company appropriated and used 1.95 billion yuan in tax money because the funds were not implemented, and Guangyuan Baozhusi Power Station in Sichuan has not, up to the present, paid 3 million yuan in taxes for cultivated land it is occupying.

### "Triangular Debt" and Back Taxes

It should be pointed out that the main reason the amount of back taxes have remained so high and have not declined is because of the close and inseparable link with "triangular debt." "Triangular debt" and back taxes are twin brothers. "Triangular debt" is one of the main sources of enterprise back taxes.

Although we have won the first round in the national campaign to clear up "triangular debt," we still have not thoroughly dealt with the constraints and implications resulting from unpaid taxes. In this context, clearing up debts and taxes together obviously takes on added importance. The question is which of the following two approaches we should select during the "two clearing ups." First, since part of the "triangular debt" funds which are paid back constitutes tax money, enterprises receiving payments for their goods should simultaneously be making their tax payments. Instead, because it would be impossible for this partial tax payment to be made on time, it will probably go toward paying off enterprises. Tax payments would once again be ignored and the government go unpaid. Second, after the work of clearing up "triangular debt" draws to a conclusion, withholdings for "taxes, loans, goods, and profit" must be made in priority order from the money obtained by enterprises which receive more in payments owed to them than they pay out for what they owe. Back taxes must be paid first to guarantee that the state obtains its tax payments. Clearing up "triangular debt" presents a good opportunity for clearing up back taxes and for ending the vicious cycle of tax delinquency.

### Subjective Reasons for the Increase in Back Taxes

In addition to objective reasons, the problem of back taxes in enterprises and relevant departments has been created by certain subjective reasons.

*Example one:* Certain enterprises erroneously think that being in arrears in taxes makes sense and is advantageous. There are a certain two extremely efficient name-brand cigarette factories which on an average earn each day approximately 5 million yuan in tax profit [shui li 4451 0448] and which have sufficient operating funds guaranteed by banks. However, the enterprises realize that they have to pay interest on bank loans, whereas defaulting on their taxes does not cost them anything. Naturally, in comparison, defaulting on government taxes is more profitable. At the end of April, the two enterprises owed a total of 591 million yuan in back taxes. The Dongbei No 1 Electrical Wire Factory does not owe a fen for water, electricity, or coal but, after having received payment for its goods, has not paid any back taxes. There are also some local governments which protect enterprises which are in arrears on their taxes, expressly providing them with tax relief measures.

*Example two:* The ultimate goal of being behind in payments is to have one's taxes reduced or remitted. It is said that these calculations are extremely common in enterprises which are behind in their taxes. Investigation

shows that, because the policies of some taxation departments are not strict and are too lax on reducing or remitting taxes, enterprises compete with each other on figuring out what is to their advantage. They think that, provided they delay payments for a long time, they can ultimately win a reduction or remission of their taxes. The chief of the State Administration for Taxation bureau has revealed that a relatively efficient enterprise under regional jurisdiction has, as a legal entity, requested on numerous occasions alleviation of its tax payments, giving as a reason the fact that a majority of the many enterprises which owe back taxes will ultimately have them remitted.

*Example three:* For various reasons, some bank units have been unable to make withholdings according to the priority order of "taxes, loans, goods, and profits." Looking after their own interests, they first withhold principal and interest on loans and then take tax payments into consideration. Some enterprises, despite having deposits in "tax overdue accounts," are unable to have their tax payments that they should be paying transferred on time because the specialty bank does not have deposit accounts with the People's Bank. Enterprise "tax overdue accounts" exist in name only. In addition, because taxation departments lack strict means with which to control funds at the source, competition between taxes and loans (interest) often occurs.

*Example four:* Some taxation departments, because they sympathize with the current economic and market difficulties that the enterprises are facing, feel that it is unfair for them to have to settle their back taxes and are not strict in imposing penalties on them. This has made a mockery out the system for collecting penalties under tax laws and contributed substantially to enterprise tax delinquency.

#### Report on Enterprises' Tax Payment

92CE0085B Beijing ZHONGGUO SHUIWU BAO  
[CHINA TAXATION NEWS] in Chinese 23 Sep 91 p 1

[Article by Yang Yimin: "The Current Tax Burden of Enterprises, Remarks by a Responsible Comrade From the State Administration of Taxation"]

[Text] What the real situation is with respect to the tax burden of China's enterprises is an issue being followed with considerable interest. This was the subject of a reporter's visit with a responsible comrade from the State Administration of Taxation. We asked him to especially brief us on the basic situation.

1. Since the second phase of replacement of taxes for profits, the tendency has been for the tax burden of enterprises to gradually decrease each year. According to a survey by the State Administration of Taxation of 451 essentially different industrial enterprises in the seven cities of Tianjin, Dalian, Qingdao, Chongqing, Lanzhou, Shashi, and Changzhou, from 1985 to 1989, yearly earnings from sales increased 81.27 percent, while various taxes which were paid only increased 9.39 percent.

During the same period, the overall tax burden of the enterprises, that is, the proportion of various taxes paid to earnings from sales, declined from 19.89 percent to 11.97 percent, a drop of 7.92 percentage points. In contrast to the above situation, the nonfinancial burden of collecting and apportioning assumed by the 451 enterprises for the local governments, departments, and communities increased 4.36-fold from 1985 to 1989, rising from 0.58 percent to 1.18 percent as a proportion of sales earnings, thereby doubling the level of the burden in five years.

2. Enterprise income tax systems currently in effect have, as a general rule, been set up in accordance with the differences in the respective enterprises. The tax rates are not same, and the preferences are different. At present, the tax rates for large- and medium-sized state enterprises tend to be high, a disadvantage to fully exploiting their key role in the national economy and detrimental to fair competition and economic associations among enterprises. However, we should make clear that, first, differences in the current income tax systems result from differing ways in which various categories of enterprises have historically distributed their profits and result from gradual emergence of various individual systems meeting the requirements of the time during the process of economic reform. To satisfy the deepening of reform, the state has now set about reviewing the issue of centralizing various categories of enterprise income taxes. State enterprises which have been experimenting with separation of taxes and profits have instituted an income tax method using a proportional tax rate of 33 percent. Second, even though the nominal tax rate of large- and medium-sized state enterprises was 55 percent, their real rate in 1990 was 39.02 percent, because of such factors as repaying loans before paying taxes. If regulatory taxes and the effects of contracts are excluded, the real tax burden was even lower. In 1990, the rate of small-size state enterprises was 26.05 percent, and that of urban collective enterprises and town and township enterprises was 28.36 percent and 23.95 percent, respectively.

3. Tax rates on goods and on added value paid during circulation are formulated according to the type of goods. Any enterprise producing the same product will be taxed at the same rate. This is how the principle of fairness is maintained. In 1990, the circulation tax rate for industrial enterprises throughout the country was 7.18 percent. The average rate for state industrial enterprises was 7.51 percent and for collective industrial enterprises, 4.51 percent. The differences between the two were mainly due to state industrial enterprises having larger tax funds and producing more products with a higher tax rate. Aside from cigarettes, alcoholic beverages, chemicals, finished product oil, electric power, steel billets, and rolled steel, the circulation tax rate for state industrial enterprises was 4.92 percent, basically approaching the 4.51 percent rate of collective industrial enterprises.

**Editorial Urges Further Financial System Reform**

92CE0085C Beijing JINRONG SHIBAO in Chinese  
1 Oct 91 p 1

[Editorial: "Work Hard To Do a Good Job of Conducting the Business of Socialist Finances; Enthusiastically Greet the 42d Anniversary of the Founding of the PRC"]

[Text] On 1 October 1949, Chairman Mao Zedong solemnly announced to the world that the people of China had now risen to their feet! Our great socialist motherland has covered 42 years since that day. A new China with the beginnings of prosperity now stands like a colossus in the East.

After establishment of New China, its great people, under the correct leadership of the CPC, advanced with giant strides along the socialist path. Since the Third Plenary Session of the 11th CPC Central Committee, the CPC, in adhering to the four cardinal principles, has carried out reform and the opening to the outside world and discovered the bright road of building socialism with Chinese characteristics. It has accomplished this by combining universal tenets of Marxism with actual conditions in China, by realistically reviewing lessons of the socialist revolution and construction, and by shifting the focus of party and state work to the modern track of concentrating on economic construction. More than 10 years of reform and opening to the outside world and further improvements in the socialist system have advanced development of China's productive forces and integration of its national capabilities and increased its standing among the nations of the world. With universal improvement in people's material and cultural lives, millions upon millions of people have gained confidence in the socialist road. Firmly adhering to the four cardinal principles and taking the road of reform and opening up to the outside world have become the Chinese people's historical choice.

We are now at an important juncture in our development. Even though the world situation presents us with many contradictions and intense competition and despite the strategic goals which China has realized as part of the second phase of its economic development, if we are to further advance socialism's every task, we must adhere even more firmly to the four cardinal principles, further deepen reform, expand our opening to the outside world, more fully exploit the advantages of our socialist system, and develop productive forces as rapidly as possible.

In the more than 40 years since the founding of the People's Republic and especially since the Third Plenary Session of the 11th CPC Central Committee, history, under the guidance of the party's basic line and at the same time that China's socialist cause has been flourishing, has opened a new chapter in the development of finance. In the past 10 years, the beginnings of a centralized, multitiered financial system has been built to meet the needs of economic structural reform and a socialist

planned commodity economy. Banks have established themselves as pivotal to the national economy. Both macroeconomically and microeconomically, they are playing an increasingly significant role, with respect to control and regulation, in their support of industrial and agricultural production and in their promotion of economic development. Large numbers of gifted financial personnel who love socialism, have mastered complex technical skills, and have given themselves unselfishly are reaching maturity. Two million financial workers and staff personnel throughout urban and rural areas have become an important force in modernization. Modern equipment in more and more areas is taking over the onerous manual procedures of the past, and new, high technology to speed up financial work has provided a strong material base. These gratifying achievements have not come easily. We must strengthen and develop this fine trend and continue the healthy development of China's socialist financial cause.

At present, China's economy continues to develop in the right direction. However, the deep contradictions of low economic efficiency and irrational structure still are not solved. The most prominent problems still complicating China's economic activity are state enterprises, especially the drop in efficiency in large- and medium-size state enterprises, lack of any obvious improvement in enterprise losses, serious oversupply of finished goods, and "triangular debt." Revitalizing large- and medium-sized state enterprises has now become the key link in promoting economic development. This not only relates to whether the economy as a whole can make the transition to improved efficiency, it relates as well to the major question of whether the public ownership economy can sustain its principle position in the national economy. We must conscientiously make a great effort to revitalized large- and medium-sized state enterprises. The financial industry must do everything it can to support this effort. We must carry out the general and specific policies on financial work decided at the national conference of bank branch directors at the beginning of the year, conscientiously do a good job with various types of financial work, and continue to contribute enthusiastically to political stability, economic development, and social order.

China's financial industry shoulders a heavy burden. If we are to properly accomplish the huge and onerous tasks of the financial industry, the strengthening of its ranks is extremely important. And if financial units are to persist in the building of material and spiritual civilizations, they must strengthen ideological and political work. We must overcome and prevent being strict on the one hand and easygoing on the other. We must, under the unified leadership and planning of the party committees, arrange for the masses of cadres to study the basic tenets of Marxism and Mao Zedong thought and carry out extensive training in socialism, collectivism, and patriotism, as well as in wholeheartedly serving the people and serving the public honestly. We must integrate financial work with the actual local situation and

the situation of the units, explore realistic and vigorous methods of work, and strengthen training in the party's line and general and specific policies. We must conscientiously take charge of the activities now in progress to rectify and build up the ranks of financial personnel. To meet the demands of developing the socialist financial cause, we must improve political and professional qualifications of financial cadres and personnel, strengthen resistance against corruption and the forces of peaceful evolution, and raise our professional and technical levels.

To develop the socialist financial cause in China, we must, by adhering to the four cardinal principles, deepen reform and the opening to the outside world even further. Structural reform of China's financial system has achieved great success in the past 10 years and more. However, the mechanisms of macroeconomic regulation and control are still not sufficiently developed. Methods and approaches for effectively solving the deep-rooted problems of structural readjustment, economic efficiency, and financial procedures are still inadequate, nor are they flexible or forceful enough. We must, therefore, vigorously but cautiously promote further reform and flexibility of the financial system. Our reform must be socialist in nature and improve and develop the socialist system, thereby bringing its superiority into further play. Consequently, the reform of our financial system must persevere in a socialist orientation. We must work hard to establish a socialist financial system with Chinese characteristics which meets the demands for combining a planned economy with market regulation and for developing a socialist planned commodity economy.

We achieved a great deal of success in the past. We now must strive to achieve even more success in the future. Let us, under the leadership of the CPC Central Committee with Comrade Jiang Zemin at its center, unite as one, strengthen our confidence, work hard, and vigorously develop China's socialist financial industry in order to make an even greater contribution to the modernization of our great motherland.

**Largest Savings Bank To Expand Housing Credit**  
*HK2211011691 Beijing CHINA DAILY in English*  
*22 Nov 91 p 2*

[Article by staff reporter Zhang Yu'an: "Credit Planned To Lure Home Buyers"]

[Text] The Industrial and Commercial Bank of China, the country's largest savings bank, is determined to further expand its housing credit business to further the drive to commercialize more housing.

An official with the bank said yesterday that the bank has drafted a plan to arrange large annual loans to support housing reform. He said that planned loans for housing reform this year were 1 billion yuan (\$188.6 million).

The loan will be made to individuals to buy commercial houses or to work units to construct new residential buildings, the official said.

Under the old housing system, houses were all built by the State. They were then rented to urban residents at a very low rate, being highly subsidized by the State.

To reduce this State financial burden and speed up housing construction to meet the demands of the fast-growing urban population, the State has launched a nationwide move to commercialize more housing.

The new housing credit policy permits individuals to borrow two-thirds of the money needed to buy a house provided they deposit one-third of the housing price and have guarantees, the official explained.

The bank started its housing credit business in the early 1980s and officially established its Housing Credit Department in its Beijing headquarters in June this year.

By the end of September this year, total savings in the bank for housing and estate businesses either for individuals or work units reached 8.32 billion yuan (\$1.57 billion) and the bank had provided about 8 billion yuan (\$1.51 billion) in loans to both individuals and work units.

The loans helped individuals to buy and work units to build housing with a floor space of more than 60 million square metres in total, enabling more than one million families to move into new accommodation, the official noted.

To further promote its housing credit business throughout the country, the bank last week held its first conference on housing credit business in Shantou of Guangdong Province. At the conference the bank's vice president Wang Zhanxiang called on branches of the bank across the country to strengthen their support for housing reform, the official added.

The Industrial and Commercial Bank of China is one of the two banks appointed by the State as responsible for housing credit business, the other being the People's Construction Bank of China, a key financial arm for the State fixed assets investment.

**INDUSTRY**

**Increased Output, Improved Quality of Steel**  
*HK0812012591 Beijing CHINA DAILY in English*  
*7 Dec 91 p 1*

[Article by staff reporter: "Steel Production Hits National Goal"]

[Text] China, currently the world's fourth largest steel producer, is expected to churn out 70 million tons of steel this year.

The industry hit its government-set target of 65 million tons of steel on Thursday [5 December]. Last year, China's steel industry produced 66 million tons.

Crude iron output was close to 62 million tons and rolled steel output exceeded 51 million tons, also by Thursday.

A report prepared by the Ministry of Metallurgical Industries said new projects built during the past five years were major reasons for the increase in steel output.

These projects included the second phase construction in the Baoshan Iron and Steel Company in Shanghai, renovations of other major steel producers such as the Shoudu (Capital), Anshan, Benxi and Panzhihua iron and steel companies. These firms are located in Beijing, Liaoning and Sichuan provinces.

The projects also helped the industry improve product quality and variety, so that China now produces more of its steel products at home.

China imported 2.62 million tons of steel during the first 10 months this year, which is 900,000 tons less than the amount imported last year over the same period. And exports increased from 830,000 tons last year to 2.33 million tons.

Cast iron product output hit 16.89 million tons by November, 26.6 percent more than the same period last year.

And while increasing their output, iron and steel industries have given priority to improving quality and adopting international standards.

Under a ministry plan, at least 60 percent of China's rolled steel production should be up to international standards before the year 2000. At present, rolled steel is still behind, despite some recent progress.

Meanwhile, XINHUA reported that the amount of steel stockpiles across the country dropped to 25.40 million tons from 28.49 million tons at the beginning of this year, and the production of 14 kinds of urgently needed steel products met this year's target two months ahead of schedule.

### Cutting of Textile Production Makes Progress

*OW2311033591 Beijing XINHUA in English  
0244 GMT 23 Nov 91*

[Text] Beijing, November 23 (XINHUA)—China's cotton yarn output was cut by 593,800 spindles over the last two months, a result of a nation-wide effort to cool down the over-heated textile production, according to today's ECONOMIC DAILY.

Statistics of 1,302 state-run textile enterprises in the country's 39 large and medium-sized cities showed that the investment for textile products in October decreased by 747 million yuan (about 140 million U.S. dollars) compared with August.

More than 1,200 textile factories stopped or half-stopped production. The number of spindles in operation was reduced by more than 5 million, representing 38.6 percent of the country's total spinning capacity, according to statistics.

As part of the efforts to reduce stockpiling of commodities and establish a more rational textile market, the ministry of textile industry called on all departments concerned in August to produce fewer low-grade products, cut down time-consuming production, discard outdated facilities, and stop turning out unsalable products.

### Increased Ethylene Output

*OW2411174991 Beijing XINHUA in English  
1604 GMT 24 Nov 91*

[Text] Beijing, November 24 (XINHUA)—The 300,000-ton ethylene installation at the Beijing Yanshan Petrochemical Corporation has been running well since it was put into operation 15 years ago.

Experts said this indicates China's ethylene production technology has ranked among the world's most advanced.

The 300,000-ton ethylene installation at the Beijing Yanshan Petrochemical Corporation, which was the first of its kind in China, has produced more than 3.7 million tons of ethylene during the past 15 years. During the same period, the Beijing Yanshan Petrochemical Corporation has made over 200 large-scale technological transformations at the installation.

Now this installation has been listed as one of the key technological transformation items during the Eighth Five-Year Plan period (1991-1995) by the China Petrochemical Corporation. The annual production capacity of the installation will reach 450,000 tons of ethylene after it is renovated.

China has set up 300,000-ton ethylene installations in recent years, including the Daqing, Qilu, Yangzi, and Panjin Petrochemical Corporations. The establishment of these installations has increased China's annual production capacity of ethylene from 60,000 tons in the early 1970s to 2 million tons at present.

### 'Feature' Cautions on Rapid Industrial Growth Rate

*HK2511151691 Hong Kong ZHONGGUO TONGXUN  
SHE in Chinese 0406 GMT 21 Nov 91*

[Feature by Huang Da (7806 6671): "Why Is China's Industrial Production Out of Control?"]

[Text] Beijing, 21 Nov (ZHONGGUO TONGXUN SHE)—When China's industrial growth rate hit 13 percent in the first half of the year, economists started to warn against the one-sided pursuit of output value and urged proper control over the growth rate. However, as the third quarter began, growth was still as high as 14.7

percent. The latest figures from the State Statistical Bureau show that national industrial output value in this October was 14.3 percent higher than the same period last year.

Faced with increasing industrial product inventories and persistently high industrial production growth rates, some economists have cried in alarm: China's industrial production has run out of control.

According to analysis, there are three causes for this loss of control: First, the injection of a huge amount of funds has kept industrial growth high. In the two years of 1989 and 1990, industrial circulating capital was continually at record highs, especially in 1990 when new industrial circulating capital was 101.9 billion yuan, part of which will have had a delayed effect on this year's industrial production. With the new increase of 57 billion yuan of loans for industrial circulating capital in the first nine months and calculated on the basis of recent loan increase-industrial growth elasticity ratios, this year's industrial growth will be around nine percentage points.

Second, huge debt defaults helped to maintain the industrial growth rate. According to a nationwide survey by the Industrial and Commercial Bank of China on some 40,000 firms, in 1989 and 1990, capital involved in enterprise commodities and loans due and advanced, already showing increases of 49 and 63.8 billion yuan respectively, saw increases of 34.8 billion yuan in the first eight months. Huge bank loans and other serious debt defaults among firms together comprised a strange phenomenon in China's economy. Greed for the impractical fame of high production has resulted in a waste of capital and resources.

Moreover, the excessive growth of processing industries is another main reason for the high growth rate. The rebound of production to a high growth rate at the start of the fourth quarter last year was spearheaded by a recovery in processing industries. The aggregate growth rate of processing industries nationwide from the start of this year up till now is 17.9 percent, four percentage points higher than general industry and responsible for its 2.5 percentage points of growth. The rapid growth of processing industries has enlarged its proportion of the total increase in output value from 47.9 percent to 52 percent compared to the same period last year, pulling up the average industrial growth rate by 7.2 percentage points.

For this reason, economists have pointed out that the current urgent task in slowing industrial production is to halt the growth of processing industries. Control can be achieved over some areas and industries in deep trouble with overproduction by deducting next year's production raw materials and by product planning targets. As for the massive production of electro-mechanic products and the consumer goods backlog, there must be an effective means to gradually absorb and hold them

down. At the same time, we must overcome the blind pursuit of output value and speed and work hard on restructuring.

#### Minister on Restraining Textile Production

HK2510092991 Beijing LIAOWANG [OUTLOOK]  
in Chinese No 39, 30 Sep 91 pp 6-7

[Article by staff reporter Li Dibin (2621 6611 2430): "Reducing Inventories, Limiting Production: Textile Industry's Formidable Task; Interview With Minister of Textile Industry Wu Wenying"]

[Text] The textile industry has always been the biggest industry in New China, the major tax-profit contributor to the state, and the major foreign exchange earner. In recent years, contradictions between the production capacity of the textile industry and the supply of cotton, and between textile output and market capacity has become more and more prominent. This has led to the serious stockpiling of textile products and a decline in the economic results of the textile industry. Under such a grim situation, the State Council adopted resolute measures for firmly reducing stockpiles of textile products by strictly limiting gross output, adjusting the structure of textile goods, and speeding up technological transformation. The textile industry calls this the "decisive battle" for the liberation of the textile industry. On the eve of the "decisive battle," LIAOWANG interviewed Minister of Textile Industry Wu Wenying.

Reporter: It is known that the State Council recently formulated some policy measures for dealing with problems in the textile industry. The two main measures are to reduce the quantity of textile goods stockpiled in warehouses and to restrict the gross output of textile goods. Can stockpiling and overproduction be regarded as the textile industry's main problems at present?

Wu: Yes. Stockpiling and overproduction are indeed the main problems that exist in the textile industry at present, and such problems have become very serious and must be solved.

At present, the value of stockpiled textile goods exceeds 20 billion yuan, accounting for one-fifth the total value of stockpiled products in the whole country and more than six months domestic sales of textile goods. Such a huge quantity of stockpiled products not only tie up a large sum of funds and add a heavy interest cost to enterprises, but also seriously affect the economic results of textile enterprises. At present, along with the decline in the economic results of the textile industry and an increase in the number of loss-making enterprises, the problem of "chain arrears" has also become prominent. A major reason for the formation of "debt chains" was the continuous increase in stockpiles. According to a survey among 1,305 state-run textile enterprises in 35 large- and medium-sized cities, funds tied up by stockpiles between January and July amounted to 10.886 billion yuan, or an increase of 31.86 percent over the same period last year; 489 enterprises, or 37.47 percent

of the total, were running in the red, marking an increase of 94 over the same period last year. The amount of losses reached 694 million yuan, an increase of 47.35 percent over the same period last year.

However, production is still shooting up, and cotton yarn output between January and July continued to exceed the annual target by 13.5 percent. Overproduction has further increased stockpiles and a vicious cycle of overproduction and stockpiling has set in.

**Reporter:** In the past, it seemed that difficulties in the textile industry came mainly from supply shortages and a worsening quality of cotton. It seems that the problem of raw materials is no longer the main contradiction.

**Wu:** That is true. On the surface, overproduction and product stockpiling are the main problems in the textile industry at present. In essence, apart from problems with product quality and variety, the main cause of overproduction and stockpiling lies in the market. At present, while textile enterprises are running below capacity, production continues to exceed market demand. Because there has been a lack of effective overall control in recent years, the textile industry expanded blindly at a low technological level. At present, the problem is not merely the supply and quality of cotton, but the product quality, variety, and the market. Leading comrades in textile departments at all levels must be fully aware of this fact.

State Council leading comrades have paid close attention to problems in the textile industry, and have set forth explicit requirements for reducing stockpiles and restraining production. We must unify our understanding and resolutely carry out the policy decision on reducing stockpiles and restraining production. This is an important and urgent task in the economic operation of the textile industry.

The Ministry of Textile Industry has fixed a target for restraining production. Production of cotton yarn must be kept below 23 million pieces, and actual output must not exceed this ceiling. Under the premise of ensuring fulfillment of general targets for reducing stockpiles and restraining production, different enterprises can be guided to act in different ways, with the production of some enterprises being restrained and the production of other enterprises of good quality being kept on. Controlling the total output of cotton yarn is not only an interim measure for this year, but is also a principle for arranging the work next year.

As for the issue of reducing stockpiles, on the one hand this can promote the adjustment of the product structure and the development of new products; on the other hand, this can also quicken the turnover of working funds and raise economic efficiency in the use of working funds. So this should also be understood and approached from a positive point of view. Cadres and workers should be helped to understand the importance and necessity of this work. While fulfilling the task of reducing stockpiles, we should also try to quicken the restructuring of the

product structure and the development of new products and improve product marketing. Reducing stockpiles is not the ultimate goal. The ultimate goal is to effectively satisfy market demand and improve economic results.

**Reporter:** Restraining production may affect the output value of some localities. For many textile enterprises, this will be a painful option. In particular, people are worried whether textile production beyond the control of the ministry can be effectively controlled and restrained. What measures and methods does the Ministry of Textile Industry have for this problem?

**Wu:** A State Council leading comrade recently said: "There are 40 million spindles in the whole country. From now on, not even one single spindle can be added for whatever reason." We must follow the directive of the State Council leadership and bring our thinking into line with this major principle. In the Eighth Five-Year Plan period, in principle, we will not increase the production capacity of cotton yarn. Even projects that have been approved but have not been started should be resolutely stopped. The development of the cotton textile industry will mainly depend on the enhancement of its technological level and will be focused on structural adjustment. Under the current situation, we must protect state interests even if this sacrifices the interests of some enterprises. Leaders in textile departments at all levels must first give thought to the overall interests of the national economy and must act in unison throughout the country. None of the fine spinning machines can be sold outside the unified plan without authorization. Production and supply must be strictly conducted with official permission. This is work discipline. The production capacity of cotton, wool, and synthetic fiber spinning will be brought under the state's unified control, while the Ministry of Textile Industry is responsible for working out the unified production plan and exercising unified management in this trade. That is, no locality and no other department can freely expand their spinning capacity. Textile industry departments and bureaus in various provinces, autonomous regions, municipalities, and cities with independent budgets are responsible for controlling textile production capacity according to the unified arrangements of the Ministry of Textile Industry. This will guarantee unified management in the whole trade.

The Ministry of Textile Industry has assigned quotas for reducing stockpiles and restraining production to various provinces and municipalities. Various localities are required to assign explicit quotas to various enterprises, and a strict responsibility and inspection system should also be established. The Ministry of Textile Industry will issue a circular on fulfilling this task in various localities every month. Bank loans for localities and enterprises which cannot fulfill the task of restraining production and reducing inventories will be suspended or reduced. In order to ensure the fulfillment of the task of reducing stockpiles and restraining production, all localities should adopt various measures in light of enterprise conditions, including closing down some enterprises,

suspending the production of some enterprises, merging some enterprises into others, changing the production of some enterprises, lowering the running speed of machines, reducing shifts, arranging overhauls, and training workers in rotation. It is necessary to select suitable enterprises to conduct pilot schemes for reducing shifts and reforming the production system. Unprofitable enterprises should be analyzed in order to discover the causes and work out countermeasures. Resolute measures should be taken against enterprises which have incurred losses for a long time for management reasons and which cannot be rectified.

In particular, it should be mentioned that fulfilling the task of reducing stockpiles and restraining production is not merely a matter for the Ministry of Textile Industry. The ministry only manages two-thirds of the textile industry's output value and less than one-third of textile enterprises throughout the country. Therefore, in order to fulfill the task of reducing stockpiles products and restraining production, the entire trade and society should make joint efforts, and government departments at all levels and relevant departmental leaders should attach great importance to this work, positively support this work, and take concerted action.

Reporter: Will the action to reduce stockpiles and restrain production cause stagnation in commodity circulation?

Wu: No. On the contrary, while action is being taken to reduce stockpiles and restrain production, we will pay more attention to circulation and will better facilitate circulation through the continuous expansion of the market. Ensuring the well-coordinated development of production and circulation so that they promote each other is a major way of rectifying the imbalance between gross supply and gross demand, overcoming structural disproportion, and changing market slackness. This is also an objective need in our efforts to free the textile industry from its predicament and ensure sustained, stable, and coordinated development. In this regard, we need to do a good job in the following aspects: First, it is necessary to speed up the adjustment of the product structure in the orientation of introducing market mechanisms. Second, we should intensify study of the market system and market organization for textiles, develop and diversify marketing forms and channels of circulation, and actually make the market for textile goods more prosperous and vigorous. Third, we should pay more attention to studying the international market and actively organize the export of products that can be sold at high prices, in large quantities and have development potential in the international market. Although the export prices of some products are not high, if they do not sell well in domestic markets and have been over-produced they can still be exported as long as there are no losses after taxes. Fourth, it is necessary to build up the sale force of all manufacturing enterprises to promote the self-marketing of their products. It is hoped that all localities will actually attach importance to these matters, overcome depressed and passive feelings,

straighten out management style, and seek existence, development, and profits through market competition.

Finally, it is necessary to stress the issue of the textile industry's technological transformation which is closely related to reducing stockpiles and restraining production. According to 1989 statistics, only 9.6 percent of the country's textile equipment measured up to world advanced levels; 36.7 percent was of domestic advanced level; 23 percent stood at the ordinary level; and 36.7 percent remained at a backward level. More than 3 million spindles were left over from pre-liberation years. With such obsolete equipment, even if we have good management skills and personnel advantages, it will still be very difficult to reinvigorate aged enterprises. At present, it is an opportune moment to conduct technological transformation in the textile industry. The State Council has put forward a scheme for shifting funds retrieved from reducing stockpiles to increasing the size of loans for technological transformation. This is a major policy for technological transformation. We must try by every possible means to grasp this opportunity and make good use of the favorable conditions brought about by this policy.

In short, the purpose of reducing stockpiles and restraining production is not to restrict the development of the textile industry, instead, it is aimed at making a strategic shift in the textile industry and creating an opportunity for bringing a benign cycle to the textile industry. This will be a turning point for the textile industry. The broad masses of workers in the textile industry must be aware of this and should boost their morale to overcome difficulties and make greater contributions to the state.

## SMALL-SCALE ENTERPRISES

### Causes, Cure of Financial Mismanagement

92CE0034A *Shanghai SHANGHAI KUAIJI /SHANGHAI ACCOUNTING]* in Chinese No 8, 30 Aug 91 pp 13-15

[Article by Chen Guifu (7115 2710 1381) et al. of the People's Government and the Suburban Department of Agriculture and Industry of Suburban Yancheng City's Qingdun Township: "Township Enterprises' Financial Management Problems and Remedies"]

[Text] The rise of township enterprises during rural reform has played an indispensable role in invigorating the rural economy and promoting the all-around development of the national economy. In recent years, while promoting the contracted management responsibility system in township enterprises, some localities have slackened their supervision as a way of giving township enterprises a more "accommodating environment." Contracting in place of administration has become a widespread phenomenon. To different extents, many enterprises are poorly managed and in financial chaos. These problems have already become a major factor

undermining enterprises' healthy development. This is what we would like to discuss here today.

#### **A. Causes of Township Enterprises' Chaotic Financial Management**

1. When some localities promulgate the township enterprise (including village-run enterprises, which will also be denoted as township enterprises below) contracted management responsibility system, first, they either fail to understand the party's policy correctly or they do not have a good grasp of the policy and assume that to implement the factory director responsibility system means giving up all power. They mistake normal guidance and supervision for "administrative interference," and so they leave everything to the contracts. This has led to the practice of "letting one person assume the contracted responsibilities and taking one person's words." Second, agriculture's "contract mold" is applied to industry indiscriminately, without considering each enterprise's conditions or trying to deal with different situations in different ways. Some factory directors and managers have become masters of "small kingdoms." Third, some leaders only look at the successes but not the failures of people who have "exceptional abilities," and using "enliven the economy and take the whole situation into consideration" as excuse, they minimize big problems and gloss over small defects and turn those people into "spoiled kids" who are beyond reproach.

2. Some enterprise contractors are of inferior political quality and behave recklessly. A handful of them enter into contract with the motive of enriching themselves only. All they see is their "rights" and never their responsibilities. During their tenure, they never worry about multiplying the collective's assets, increasing productive accumulation, or adding input for technological transformations; they only worry about their personal gains or losses and engage in management by "plundering." Some managers have indeed contributed toward enterprise development, but they quickly turn their success and glory into personal assets. "More glory brings greater personal desires." They covet, scoop, seize, and become dependent as their "appetite" increases. As the old adage goes, "one catches more fish in murky water," and if the financial affairs were in order, it would be harder to "get one's hands on the money." This is one reason for the financial mismanagement.

3. The financial staff has a weak sense of the law and is of inferior quality. Some people worry about losing their "rice bowl," and so they ignore the financial system, abandon accounting supervision, and become appendages to the factory director. They "obey" the factory director's every order. Others try to "grease" themselves. As a result, financial management is in chaos and the books are a mess.

4. In the many contracting enterprises, the workers are no longer treated as masters. Workers' supervision is ignored. The factory directors who entered into the

contracts look upon themselves as "bosses" and treat the workers as "hired hands." Today, most localities have given enterprises the power to hire and fire workers. If the peasants do not want to lose their "rice bowl," if they want to earn a living working for the "boss," they had better be more compliant.

#### **B. Manifestations of Township Enterprises' Financial Mismanagement**

First, some township enterprises' financial systems are unsound and have never been implemented. Of the 10 enterprises we investigated, seven had their financial systems written on paper and posted on the wall, but they were never implemented, and in reality they never really existed.

Second, the phenomena of wining, dining, and gift-giving using public funds and other wasteful practices are widespread. One enterprise which had annual output value of 1 million yuan but profit of only 40,000 yuan spent 140,000 yuan on food and drinks and gifts over a three-year period.

Third, the accounting books are in disorder, and violation of law and order is a serious problem. Careful checking and examination showed that economic problems exist to varying degrees in all units we investigated. In one enterprise, the factory director and the accountant and others had been in cohorts for the last three years. They did not report some income, submitted the same expense accounts over and over again, turned in phony expense accounts and bogus receipts, doctored bills of sales, and embezzled more than 20,000 yuan of the collective's funds. By delaying the reporting of this year's production cost until next year, they managed to show lower cost and higher profit and were able to divide as much as 20,000 yuan in bonuses among themselves. They fattened themselves at the collective's expense.

Fourth, there are serious problems with unauthorized cash outlay and receipt, using "IOU's" as collateral, and misappropriation of loans and expenditures. Most enterprises have such problems. Study showed that a certain enterprise had 300,000 yuan in unauthorized cash outlay and receipts in the last three years. It deposited nearly 200,000 yuan in public funds into its private account and squandered more than 1,000 yuan in interest earned. It ran up more than 10,000 yuan in "bad-check" collateral and misappropriated loans and expenses. Repeated warnings went unheeded.

Lastly, accounts are not settled or recorded in a timely fashion, and the figures are sometimes bogus; the financial situation is unclear, stock goes unchecked, and inventory is never taken; nobody cares when assets and goods and materials are lost.

#### **C. The Effects of Financial Mismanagement on Enterprise Development**

Township enterprises' financial management is the most crucial part of enterprise management and is also an

essential component in the perfection of the contracted management responsibility system.

How well or poorly township enterprises manage their financial affairs will directly affect their survival or demise, their rise or fall. If their financial affairs are not in order, no matter how well-managed they are, they will not be profitable. JIANGSU JIJIAN [JIANGSU DISCIPLINE REVIEW] No 3, 1991 disclosed that since the year before last, Zhenjiang City's procuratorial organ had uncovered 29 economic criminal elements and 40 other violators of economic laws in five "star" township enterprises; 700,000 yuan was involved, and 10 criminals were caught in cases that involved more than 10,000 yuan. Of the 29 criminals, 12 were factory directors and deputy directors. Let this be a lesson to us all.

Township enterprises are run by the collectives. If the enterprises go downhill, if the collectives lose money, and if public undertakings fail to develop as a result, the peasants will be the losers. Therefore we must take effective measures and try our best to rectify township enterprises' financial mismanagement. If we do nothing, if we ignore the situation, the consequences will be intolerable. This is not a scare tactic but is a very serious problem which urgently needs to be resolved.

#### D. Means To Strengthen Township Enterprise Financial Management

In view of the current situation, to strengthen township enterprises' financial management, we must adopt the following measures:

1. We need stronger management concepts. First, leaders at all levels should reach a consensus about strengthening enterprise management. The departments in charge must put business guidance, supervision, and administration on top of their agenda and make them their central tasks. Second, we must begin with their political and ideological education and instill in the enterprise staff and workers the idea that management is enterprises' life, so that they want to implement the financial system consciously, do everything according to the rules and regulations, and stop regarding themselves as outsiders. Enterprise insiders and outsiders and the rank and file must work together, acquire a stronger sense of management, and make the enterprises' business everybody's business.

2. We must perfect the contracted management responsibility system and enhance enterprises' ability to "nurture and create new blood." We must promote the factory director responsibility and the whole staff collateralized contract systems to link enterprises' well-being to the direct benefits of the entire staff and all workers. We must plant the roots of democratic management and workers' supervision in the whole enterprise's management and radically change the practice of "letting one person assume the contract responsibilities and taking one person's words." We must replace the "profit-based" contract quota with "responsibility-based" contract quota and make financial management one of the

important norms in assessing contract fulfillment. We must have organization and leadership in sorting out and putting in order enterprises that are riddled with problems. Irresponsible or incompetent cadres should be replaced. Those who have been negligent of their duties or have violated law and order must be prosecuted according to law.

3. We need better accountants. We must do a good job training them in law, rules and regulations, and the duties of accountants and improve their political quality. We must focus on their professional training so that the accountants are familiar with and can handle "accounting, auditing, and accounting analysis" and provide enterprises and the higher-level departments with the bases for making decisions. The financial and accounting personnel must try to improve themselves, become more knowledgeable, familiarize themselves with more theories, and enhance their professional ability so as to meet enterprise's management needs. We should implement an accounting "certification" system. People who are poorly educated, who do not meet professional standards, who are incompetent at work, and who fail to qualify despite training should be replaced. People who violate financial and economic laws, who fail to abide by the financial system, and who fail to correct their behavior despite repeated warnings should be dismissed. The corrupt, the thieves, and violators of law and discipline must be taught to respect the law; we must not be lenient and indulge them.

4. We must amplify the management system. Upon implementing the agricultural and financial ministries' "Township Enterprise Financial System" and the "Township Enterprise Accounting System," each locality should target its own weaknesses and formulate effective detailed rules and regulations. The departments in charge should see to it that the systems work the first time they are implemented and make sure that the systems are implemented diligently and carried out as soon as they are formulated and that they are not just writings on paper or decorations.

5. We must perfect the management mechanisms. We must guarantee that the accountants can exercise their accounting functions independently. While letting the township agricultural and economic stations take charge of enterprises' financial management centrally, the localities can also set up township enterprise accounting stations to take care of training, examining, and hiring accountants and put the power to hire and fire accountants at the township level. Meanwhile, we can implement an "achievement-linked" salary system, a "two-way" examination system, and a "double hundred-point" examination system at each level. The accounting stations are responsible for assessing the quality of accounting work, the professional standards, the enforcement of financial and economic laws, and the state of internal control. Enterprises themselves are responsible for assessing job responsibility, service attitude, and management result. Enterprises should pay the

workers' basic wages based on the result of these assessments, and the township government should hand out the bonuses. The money for the bonuses can be gathered from enterprises by the townships. Second, we must protect the workers' legal rights and privileges. The departments in charge should hold on to the power to recruit workers and to examine and approve workers' reward and penalties, so as to guarantee the workers' legal status and their right to participate in enterprises' democratic management.

6. We must strengthen the auditing and supervisory process. We should develop some auditing and controlling mechanisms for the rural economy. The townships should set up an auditing organ as a functional department of the township government. We must have regular as well as unscheduled audits of enterprises' financial income and expenditure plans, fund utilization, equipment maintenance and use, expense and cost management, production and operating profit, and allocation of after-tax profits. Internally, depending on their sizes, enterprises can employ an auditor either as a specialized job or as a concurrent post. The auditor should participate in the enterprise's financial management and exercise normal supervisory functions. Auditors are held responsible to the superior auditing organ and should "clear the way with much fanfare" and help put enterprise financial management on an institutionalized, standardized, and scientific track.

#### **Li Ruihuan Praises Township Enterprises**

*92CE0146A Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 23 Oct 91 p 1*

[Article by Yi Bian (0001 6708): "Township Enterprises Give Socialist Countryside Chinese Characteristics"]

[Text] Li Ruihuan [2621 3843 3883], a member of the standing committee of the Politburo of the CPC Central Committee, had high praise for township and town enterprises during an inspection tour of southern Jiangsu recently. As he saw it, the development of township and town enterprises represents a direction, a trend, and an approach in the construction of the socialist countryside with Chinese characteristics. The development of township and town enterprises is a political as well as economic issue. Therefore, we must nurture them unwaveringly and help them realistically to guide their healthy growth. His speech was reprinted in Issue 16 of BAN YUE TAN this year. Following is the text of the speech in full:

China has over 800 million peasants. The state of the countryside has a vast impact on the cities and helps determine the development of the national economy as a whole. To build socialism with Chinese characteristics, we must redouble our effort to figure out a way to make rural construction a success so that peasants become wealthy over time and narrow the urban-rural and industry-agriculture gaps. My latest visit to several areas in southern Jiangsu has left me deeply moved. As Comrade

Deng Xiaoping has said, township and town enterprises truly represent a "new force suddenly coming to the fore." Judging from the development of township and town enterprises in southern Jiangsu, they constitute a new direction, a new trend, and a new approach in building the socialist countryside with Chinese characteristics. I have arrived at a number of ideas on the roles and functions of township and town enterprises, which I hereby present to you for your reference.

#### **Township Enterprises Can and Should Promote the Development of Agriculture**

Food is heaven to the masses. Without agriculture, there can be no stability; without food, there will be chaos. In China, a country with a population of 1.1 billion, food is of paramount importance. Agriculture is the base of the national economy now, in the past, and in the future. Never are we to depart from that in the least. Practice proves that to develop agriculture, we must depend on, first, the right policy; second, science; and, third, investment. To increase investment means the state has to cough up some more money. But the treasury is now strapped for funds and is in no position to come up with any significant sum of money. By and large the peasant must rely on himself. If the situation in southern Jiangsu and other places with developed township and town enterprises is anything to go by, these enterprises have become a major source of agricultural investment. According to statistics, the nation's township and town enterprises directly channeled 27 billion yuan into agriculture during the Seventh Five-Year Plan alone, equivalent to 35 percent of state investment in agriculture during the same period. If we kick in indirect investment, the number would be much higher still. In the process of developing township and town enterprises, of course, there have been isolated instances in which land was allowed to lie waste as a locality became engrossed in making money. But this is not a problem that cannot be overcome. Provided we are fully alert and take practical measures, we can expedite agricultural growth even as we develop township and town enterprises.

#### **Township Enterprises Can and Should Help Peasants Overcome Poverty and Become Wealthy**

China is densely populated but has little arable land, a mere one-third or one-quarter of a mu on a per capita basis. There is only so much wealth such a tiny plot of land can generate. I have been to Dali in Yunnan. With its abundant sunshine and ample rainfall, people there commonly harvest 2,000 jin of grain per mu with intensive cultivation, even 3,000 jin in some instances, which is very high. Yet the living standard of local peasants still falls far short of that in economically developed areas. To make peasants prosperous, raising grain prices alone is not enough. In contrast, developing township and town enterprises and tapping and exploiting resources other than farmland in a rational manner represents a sound approach. During the past decade, the peasants of China derived over 480 billion yuan in incomes from township and town enterprises, more than one-quarter of

their net incomes, even as high as 70 or 80 percent in some areas. Having met the basic needs of food and clothing, Chinese peasants will achieve a comfortable standard of living in the next decade. To achieve this goal, a more realistic approach is to develop township and town enterprises, an approach premised on an all-out push for agricultural growth.

#### **Township Enterprises Can and Should Provide an Outlet for Surplus Labor in Countryside**

More and more rural workers have been displaced from the land as a result of both natural population growth and rising agricultural modernization. This is an inevitable trend. In some developed nations in the world today, the agricultural labor force accounts for less than 10 percent of the national labor force. In China the corresponding figure is a high 70 to 80 percent. Even when China's agricultural work force drops to 50 percent of the total work force, it will still be a substantial number. What we do with the surplus workers is a major issue, critical to the nation's political stability and economic development. According to data from the pertinent agencies, so far 90 million peasants, or 20 percent of the rural work force, have joined township and town enterprises across the country. The proportion is even higher in southern Jiangsu where in some counties as much as 50, 60, even 70 or 80 percent of the work force have found their way into township and town enterprises. These peasants "leave the land but not the village" and "become factory workers without relocating to the cities," thus costing the state hardly anything. To be sure, the government has offered them some tax breaks and given them a little assistance by way of loans. In contrast, it costs the state 10,000 to 20,000 yuan, perhaps even 30,000 yuan, when a city places a person in job. As Comrade Deng Xiaoping said, there is a difference between how China finds jobs for its rural population and the influx of villagers into the cities in other nations. The difference is the "development of the township economy."

#### **Township Enterprises Can and Should Help Develop State Enterprises**

State enterprises, particularly large- and medium-sized state enterprises, are the main pillar of the national economy and enjoy an edge in personnel, technology, and management. State enterprises cannot and need not do everything, however. In many places, township and town enterprises put their advantages to good use by utilizing their own funds, equipment, and low-cost labor to process local agricultural byproducts and manufacture parts, components, and accessories for state enterprises, thereby providing society and the foreign trade sector with the needed products. This benefits not only the countryside but also the nation and state enterprises. For instance, by subcontracting the making of parts to the countryside, the state enterprise is spared the need to hire additional workers, build new plants, or increase living facilities. In the process, specialization is furthered, costs are lowered, and efficiency is also

improved. Note also that the development of township and town enterprises has provided the revitalization of state enterprises with some valuable experiences and lessons. We cannot say without a careful analysis that ownership by the whole people is not as good as the collective economy. Nor can we simple-mindedly apply the mechanisms of township and town enterprises rigidly to a state enterprise. On the other hand, we must see that there is indeed something in the for-self operating mechanism of the township enterprise—it enjoys decision-making authority in its operations, assumes responsibility for its own profits and losses, and has the capacity for self-development and self-restraint—that state enterprises can make use of. During the drive in the past two years to improve the economic environment and rectify the economic order, for instance, most enterprises that embarked on structural adjustment and did so expeditiously and effectively with township and town enterprises. When they see that something works or does not work, they shift gears accordingly right away. What is it really about the operating mechanism of the township enterprise that the state enterprise can make use of? This is a question that needs to be further examined in earnest.

#### **Township Enterprises Can and Should Create Conditions for Gradually Narrowing the Urban-Rural Gap**

Gradually narrowing the urban-rural gap is a strategic mission in our socialist construction following our seizure of political power. The party and the government have explored this area extensively in the past and adopted numerous measures. Today it seems that the development of township and town enterprises not only makes one demand after another on changing the look of the countryside but also creates the material conditions for such a change. To market and sell their products and attract customers, township, and town enterprises must build roads, put up a building, and install a telephone so as to create a favorable set of conditions for doing business. During this visit I have been to a few villages with developed township and town enterprises, all boasting decent houses and asphalt roads and nicely planted with trees. There is hardly any difference between them and the city. The development of township and town enterprises is bound to fuel the development of commerce and the service sector and the construction of cultural and recreational facilities, thereby giving rise to one small city after another. The emergence of tens of thousands of small cities in the Chinese countryside in the past few years, particularly in areas like southern Jiangsu, which is sprinkled with small cities, is inseparable from the development of township and town enterprises. The development of township and town enterprises also has diversified urban-rural ties. The traditional urban-rural intercourse was primarily one of product exchange. Now that township and town enterprises are off and running, urban-rural ties have been broadened to include technology transfer, the

exchange of qualified personnel, and the circulation of funds, enabling both town and country to flourish at the same time.

#### **Township Enterprises Can and Should Improve the Quality of Peasants**

Normally the rural economy develops rapidly where peasants are of a high quality. By the same token, the quality of peasants can be improved rapidly where the rural economy is developing quickly. In China, developing all types of education is certainly a means to improve the quality of peasants, but only in conjunction with the development of agriculture, industry, and a commodity economy. During my latest trip to southern Jiangsu, I visited several places and came away convinced that township and town enterprises can play an enormous role in improving the quality of peasants. As workers or cadres at a township enterprise, peasants come into contact with the machinery that represents socialized mass production and regularly participate in economic activities that cross county, provincial, and even national boundaries. As their range of activities widens, their outlook broadens and they become more knowledgeable as well as more organized and disciplined. Give a village a couple of township and town enterprises, and its peasants will be motivated to pursue science and culture. If a peasant is uneducated, he cannot work in an enterprise. Even if he finds a job there, he cannot become a skilled worker, a technician, an engineer, or a member of the managerial staff. Thus he is compelled to get an education. Once township and town enterprises are developed, money will be available to operate schools, train personnel, build a library and a cinema, and offer closed circuit television and other cultural facilities, which also creates the conditions for improving peasants' quality. At a forum on ideological and political work in township enterprises held not long ago, it was said, with justification, that township and town enterprises not only are a material production unit but are also a school for training a generation of new-style peasants.

#### **Township Enterprises Can and Should Accelerate the Development of China's Commodity Economy**

It takes many things to develop a commodity economy, one of them being the market. Without a market, commodities will just sit in the warehouses, unable to find a buyer. When the value and use value of a commodity are unrealized, the reproduction process must come to an end. With its 800 million peasants, the Chinese countryside is the largest commodity market. Whatever the commodity, as long as it is what the peasants need, you need not worry about not being able to find a buyer. The key question here is this: How much money does the peasant have in his pocket? Demand unaccompanied by cash will not do any good. One of the vital functions of township and town enterprises is to raise the purchasing

power of peasants. Last year township and town enterprises across China paid 120 billion yuan directly to peasants in the form of wages alone, or 150 yuan per person, almost one-quarter of a peasant's net income. To end market sluggishness in China, much depends on what happens in the countryside. And the development of town and town enterprises goes a long way toward increasing the peasants' purchasing power.

#### **Township Enterprises Can and Should Intensify the Development of the Rural Grassroots Organization**

The rural grassroots organization is at the forefront of reform and construction in the countryside. It comes into direct contact with the masses, serves as a bridge between the party and government, on the one hand, and the masses, on the other, and is a major guarantee of the execution of all the party's rural policies and the accomplishment of every task. How to intensify the development of the rural grassroots organization? In organizational terms, it requires that we build up a strong party branch and a strong villagers committee. In economic terms, it means that we must help peasants become wealthy without delay. If a village has one, two, or three decent enterprises, if collective incomes and accumulation amount to a couple of tens of thousands of yuan or several hundreds of thousands of yuan, then its grassroots organization will be that much better able to operate normally and do things for the masses. It will be in a position to provide multiple free services, initiative public welfare projects in all areas, and launch ideological, moral, cultural, and educational activities. In the process the rural grassroots organization of the village will develop more appeal and become a coalescing force. We can thus see that the development of township and town enterprises is a political as well as economic issue.

The roles of township and town enterprises are not limited to just these eight. What I have done here is to give a general idea; you can think about it more deeply and examine it more closely. For instance, what is the trend in the development of township and town enterprises? How much of a share of the entire national economy will those enterprises constitute in the future? How does it relate to agricultural modernization? So on and so forth. As with any new thing, township and town enterprises must go through a process of gradual improvement during the course of development. There are even isolated instances in which problems have cropped up in the operations of an enterprise. We cannot deny their positive role in socialist construction on that account. We should separate the functions of township and town enterprises from the problems that have arisen along the way and implement the CPC Central Committee's principle of "supporting actively, planning rationally, guiding correctly, and improving management" in earnest. We must nurture township enterprises unwaveringly, help them in practical ways, and guide their healthy development.

## CONSTRUCTION

### Article on Implementing Housing Reform

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6 Nov 91 p 2

[Article by JINGJI TIZHI GAIGE reporter Wang Xiaotong (3769 2556 0681) and staff reporter Wang Qingxian (3769 3237 2009): "What Are Characteristics of Housing Reform?"]

[Text] Housing reform is spin drift in the big wave of reform.

Like everything else, only by understanding its characteristics, can we properly handle it.

### Different Cities Have Different Methods

Uniformity is demanded in price reform, but housing system reform is different. There is a unified objective but the methods are different.

Generally speaking, housing reform cannot be separated from "leasing" or "selling." But there different methods of leasing and selling.

In Yantai, Tangshan, and Bangbu, leasing is the main method. But Yantai started by leasing old empty houses, Tangshan by leasing new houses, and Bangbu by leasing old empty houses and selling new ones.

In Shenzhen, Jiangmen, and Huaxian, selling is the main method. However, the down payment in Shenzhen is 10 percent and a 15 percent discount is given for payment in full, the down payment in Jiangmen is 30 percent and a 20 percent discount is given for payment in full, and in Huaxian employees enjoy a 25 percent discount for payment in full.

Shanghai is introducing a provident fund in housing system reform. Everyone is required to deposit 5 percent of their wages in banks to form a housing fund which will be earmarked for this special purpose regardless of whether they buy houses or not.

These characteristics of housing system reform have resulted from imbalances in economic development in different localities, different investments, housing difficulties, and different capacities to withstand the pressure of housing system reform. Therefore, different localities are introducing different methods and it is hard to find a single solution. This diversification is an important sign suggesting the healthy development of housing system reform.

Some comrades in Guangdong are worried that the "Tangshan program" might discourage people from buying houses. Will housing construction be affected because state burdens remain heavy? Tangshan's situation is different: After the earthquake, the state made a large investment in housing construction. Now the per capita floor area is 12 square meters, higher than the

standard of being better off. So, their housing problem is not so serious as in other big cities. In addition, Tangshan people's income is lower than the income of people in economically developed cities and towns in Guangdong. So they cannot introduce the Guangdong program in housing reform.

Shanghai is different because the per capita floor area is small. Consequently, the housing problem is serious here. At a time when the commercial concept is improving, a method easily acceptable to people should be introduced to find a fast solution to the housing problem. That is why they have adopted the provident fund.

The target set by the Eighth Five-Year Plan and 10-year Program is that urban citizens should have a per capita floor area of eight square meters by the end of this century. The fulfillment of this target relies on local government efforts. Decentralizing policy making means delegating powers and responsibilities to lower levels. In this way, local governments can introduce flexible methods and have a sense of urgency for the fulfillment of this target.

### Unusually "Difficult," Unexpectedly "Smooth"

Everybody is of the opinion that "housing reform is very difficult."

For those who have houses to live in, housing reform seems to take away some of the benefits they received; these people are a little displeased.

Those who have had houses distributed to them feel that they are "unlucky" because their turn has been forfeited and they will have to "spend more money" as a result of housing system reform.

Those who do not have houses at all are happy about housing system reform but complain that they cannot afford to buy a house.

Enterprises having housing proprietary rights are pleased, but enterprises which do not feel that they have suffered losses because the housing subsidies they provided for their employees have been taken away by other enterprises.

Contradictions remaining from the old system have now manifested themselves in housing reform. How should we solve these contradictions? How should we destroy this old system and pattern of interests? How should we encourage more people to join this indispensable housing system reform?

Designers in many localities carried out repeated theoretical proofing in line with their conditions. Local housing reform group leaders are generally the principal leaders of local party committees and governments.

After the State Council designated Tangshan as a city for housing reform experimentation, the city party committee and government held meetings on more than 30

occasions to work out a housing reform program; the city's People's Congress and Chinese People's Political Consultative Conference committee held meetings on five occasions to solicit opinions. The relevant departments sent 6,000 people to carry out investigations and calculations. The housing reform program was revised on 14 occasions according to the data obtained from these investigations and calculations. After trial-implementation, the housing reform program was formally carried out.

The Shenzhen Housing Reform Office took housing reform as a research subject. The departments concerned sent 5,000 people to conduct investigations, through which they compiled 140,000-characters of data. Each theoretical proofing was based on policy. Finally they decided that selling houses was to be the main form of housing reform.

It is true that housing reform is difficult. Dong Richen, a person in charge of the Shenzhen Housing Reform Office, said: "I conducted theoretical proofing for the Baoshan Steel Company's complicated program, but it was not as difficult as Shenzhen's housing reform program!"

However, housing reform programs were carried out smoothly in almost all localities after they were worked out.

Before Shanghai implemented its housing reform program, the designers were worried that fund contributions would be impossible. But within a month after its housing reform program was formally implemented on 1 May this year, fund contributions amounted to 47 million yuan, the contributory rate being 95 percent. What a relief for the designers.

#### A "Protracted War," Not a "Quick War"

As reform in China is a long historical process, no "quick results" can be expected from housing system reform. This reform involves wide-ranging fields, including finance, planning, wages, banking, taxation, prices, and social protection. Only when these proceed in coordination with each other will housing system reform make much headway.

Our goal is the commercialization of housing. But housing reform has only just started. Apartment prices are still far from commercial standards. At most, they are approaching the quasi-standard of construction costs. The recently concluded Second National Housing Reform Work Meeting demanded that house rents should cover construction costs by the year 2000.

Shenzhen will introduce housing commercialization in four steps:

The first step is from 1988 to 1993, in which apartment prices will reach the quasi-standard of construction costs. The main task in this period is to conduct theoretical research into housing reform, formulate housing

reform programs, create an atmosphere for housing reform, and implement housing reform measures.

The second step is from 1994 to 2000 when apartment prices will be equivalent to construction costs and the state will neither benefit nor lose.

The third step is from 2001 to 2030, when employees will buy or rent apartments at prices higher than the planned costs. During this period, apartment prices will be raised so that the housing fund will enter a virtuous cycle.

The fourth step is from 2031 onward, which will be the market price period. Employees' wages will include adequate housing expenditure and citizens will buy apartments in the market.

It will take Shenzhen 40 years to realize the commercialization of housing. We do not think that quicker results can be achieved throughout the country.

Because of this prolonged nature of housing system reform, government at any level should not be overanxious for quick results, nor should they think that all problems will be settled as soon as a housing reform program is served. The implementation of a housing reform program is not the completion of housing system reform but the beginning of this reform. New problems in housing system reform should be studied so that this reform will proceed toward housing commercialization. Now, housing reform offices in all parts of the country are only of a temporary nature. These offices should be made permanent following the continuation of housing reform. This will be conducive to the stability of housing reform personnel and to commercializing housing construction and consumption.

#### Soaring Commodity Housing Prices Arouse Concern

*OW2411083791 Beijing XINHUA in English  
0808 GMT 24 Nov 91*

[Text] Hangzhou, November 24 (XINHUA)—With the progress of housing reform in China, the prices for commodity housing are growing high, and people from all sectors have shown concern.

The average price for a square meter was 200 yuan (about 40 U.S. dollars) for commodity houses in 1980 when the housing reform was just started. That means one who bought an apartment with a floor space of 50 square meters had only to pay 10,000 yuan (2,000 U.S. dollars).

But since then, housing prices have been rising sharply year after year. In 1990, the average price for a 50-square-meter apartment reached 65,000 yuan (about 13,000 U.S. dollars), 5.5 times that of 10 years ago.

The prices have far exceeded the affordability of the majority of the people and that may seriously hinder the housing reform, warned top officials.

Sharp rises of land charges, higher costs of labor and building materials and increases of taxes and various other additional expenses are accounted for the price hikes of commodity houses.

Governments of all levels and people around the country are all asking for about checking the rapid increase of housing prices.

A number of local governments have worked out measures and regulations for commodity housing control.

## FOREIGN TRADE, INVESTMENT

### Six Problems With Current Foreign Trade System

92CE0036A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 8, 30 Aug 91 pp 12-14

[Article by Hu Yingfeng (170 5391 7685) and Yang Chongyi (2799 1504 5669): "Six Major Problems With China's Current Foreign Trade System"]

[Text] Since embarking upon the program of reform and opening up, China has carried out a series of exploratory reforms upon the foreign trade system which have spurred the development of foreign trade. Once again this year, there have been historical breakthroughs in these reforms. In the wake of the devaluation of the renminbi, exports subsidies have been completely eliminated and a new system in which trading companies take responsibility for their own profits and losses has been established. If we examine the situation during the first quarter in Shanghai, we will see that in spite of across-the-board improvements in the performance of trading enterprises, many potential conflicts lie hidden.

In the first quarter of this year, exports through the port of Shanghai increased 10.34 percent over the same period last year. The exports of foreign-invested enterprises (FIE's) increased 105 percent, those of industrial/trading enterprises and privately run enterprises increased 80.94 percent, and those of 19 specialized trading companies increased 5.5 percent. In terms of the structure of export growth, the exports of FIE's grew faster than those of state-run enterprises, and the exports of industrial traders and individually run enterprises grew faster than those of specialized trading companies.

Although export volume increased and export losses fell in the first quarter, these successes were due in large part to two factors. First, the Eastern China Trade Fair greatly spurred the export of commodities from Shanghai. They increased 25 percent over last year, when there was a small trade fair. Second, a large portion of these export deals were actually agreed upon last year but not executed until this year. The export growth rate declined steadily from 30 percent in January to 24.4 percent in February, 17.9 percent in March, and 5 percent in June. The number of export contracts signed has decreased 3.2 percent from the same period last year.

Procurement of export commodity source materials is weak. Cumulative purchases in Shanghai are down 5.28 percent from the same period last year, and goods shipments from outside the municipality have declined 10 percent. Exports are losing momentum. At the same time, export procurement prices are rising. There is a serious problem of sensitive commodities being sold to other localities (eel hatchlings are a case in point). Exports of commodities which lose a lot of money, such as tin cans, tires, and some textile goods, have decreased sharply. Actual tax rebates are divorced from the tax rebate plan; early exports do not mean early tax rebates. By the end of the first half year in Shanghai, most companies had only received tax rebates for the first three months, which affected their ability to make up for export losses. This phenomenon has occurred primarily because the positive effects of the new foreign trade system have yet to take hold while certain underlying problems which limit the development of China's foreign trade have not been resolved. These problems are demonstrated primarily in the following ways:

#### I. Conflict Between Exchange Rates and the Foreign Trade System

In less than a year, the renminbi has been devalued twice. Concurrently, in 1991 the state has eliminated subsidies for trading enterprises, which have begun to take responsibility for their own profits and losses. It is arguable that the currency devaluation, elimination of subsidies, and reform of the foreign exchange retention system constitute the core elements of foreign trade reform, and that these actions are the foundation of efforts to improve the overall operational capabilities of enterprises and implement a system in which enterprises take responsibility for their own profits and losses. However, the environment for enterprise operations continues to be unfriendly even after readjustment of exchange rates. First, heavy losses continue to plague exports. Operating within the new system, export costs in terms of foreign exchange for trading companies in Shanghai have risen, and trading enterprises have been unable to absorb them. It is unlikely that this year's export plan will be carried out, because one-fourth of the source materials for exports have been unobtainable. Second, the trading operation method in which overdue debts were merely kept track of in a debit account is no longer appropriate. In the past, the state allowed trading companies to keep such accounts, and a "three no policy" was followed by banks—no interruption in loans, no interest charged, no penalties. Under such circumstances, trading companies were able to maintain money-losing operations, but under the new system, they are not allowed to maintain the old debit accounts. This is in line with the general orientation of economic reform, but in reality, while policies under the new system are quite stringent, the factors which give rise to money-losing operations have not been eliminated. Trading enterprises in Shanghai continued to rack up heavy debts in the first half of the year, "piling on new debts before the old were repaid." Third, export volume

could shrink. Under the new trading system, conflicts of interest between the industrial and trading sectors have grown more pronounced. In the effort to maintain control over the critical divide between profits and losses, the main tactic employed in the trading sector (apart from selling at the best possible price on international markets and keeping operational and management costs to a minimum) has been to seek operational autonomy. With respect to products for which costs in terms of foreign exchange are on the wrong side of that critical line, they limit procurement, refuse to procure, or procure at reduced prices. The industrial sector, which derives very little profit from its export commodities in the first place, can ill afford to provide goods at low prices. Export volume at five textile import-export companies in Shanghai declined 10 percent from the same period last year, and they only achieved 30 percent of the annual quota for exports of consignment goods. This conflict between the industrial and trading sectors will cause some export products to flow into domestic markets or to be diverted to other ports where procurement prices are higher. Judging by last year's export commodity mix in Shanghai, implementation of the system in which enterprises take responsibility for their own profits and losses will make it impossible to export about one-third of last year's export commodities. What is worse, the contraction of export volume means that China's share of international markets, which was small to begin with, will further shrink. This not only affects our current interests but also has a harmful affect upon the future. From the perspective of trading imports, the effect of the currency devaluation—stimulation of exports and inhibition of imports—has yet to make itself felt, while the side effects from the elimination of subsidies and increased losses have already hit like a ton of bricks. The interaction between exchange rates and the foreign trade system has not led, as expected, to a strengthening of the operational capabilities of enterprises.

## **II. Conflict Between the Fiscal Responsibility System and the New Foreign Trade System**

In 1988, the system in which local governments take responsibility for balancing their own revenues and expenditures was implemented across the country, and after that, a new foreign trade system was implemented. These developments further stimulated and strengthened local interests, and they further highlighted the fact that local governments have become entities which seek to maximize their own interests. In their efforts to maximize these interests, local governments have erected barriers around themselves, which has caused them to become cut off from each other. The impact upon foreign trade is evidenced by the fact that competition for exports has broken out between these localities, and it is concentrated on a few products which are low in cost and high in profit and which have strong markets. Trade wars occur frequently, and costs in terms of foreign exchange are growing higher and higher. The reason for this situation is that the interests of local

governments are directly reflected in local fiscal policy and in foreign exchange retentions. The vigor of local governments depends to a large extent upon fiscal and foreign exchange revenues. For this reason, local governments are forced to go to great lengths to increase their fiscal resources and foreign exchange revenues. They seek to maximize local interests while ignoring overall national interests. Although the new foreign trade system eliminates export loss subsidies and unified foreign exchange retentions, elements of unequal competition still exist beneath the surface within a system where there is officially equal competition between foreign trade enterprises, because the system of local fiscal responsibility is operating within an imbalanced environment. For example, enterprises have to turn over 10 percent of the foreign exchange earned through export activities to local governments, and local governments may resort to compensated procurement. Through a variety of channels, the unequal conditions which plague the local fiscal responsibility system can have an impact upon trading operations. Because Shanghai is in tough fiscal straits, it is in no position to attend to exports, which makes it difficult for Shanghai to tap its advantages in foreign trade.

## **III. Conflict Between the Price System and the Foreign Trade System**

Twelve years of price reform have pushed China's retail price index up 90 percent, but China's price structure has not been significantly improved. In the past two years, the scissors gap between industrial and agricultural products has expanded, and internal price parities between light and heavy industrial products have reemerged at higher price levels, making the new system irrational. The domestic and international price systems are still sharply at variance. This is primarily evidenced by the fact that domestic prices for primary products and raw materials are lower than international prices, and exports are very profitable. On the contrary, domestic prices for highly processed goods are higher than international prices, and exports lose money. China enjoys relative price advantages for the wrong types of goods, which means that China's export commodity mix is overly weighted toward low value-added products. The new foreign trade system has not effectively resolved this problem. The effect of the elimination of export loss subsidies has been to suppress exports of money-losing products, but money-losing exports are highly processed products, and suppressing the export of such products runs counter to China's efforts to improve its export commodity mix. As for agricultural, sideline, and local specialty products, export costs in terms of foreign exchange remain high because domestic prices are rising. Eliminating export subsidies for these products would not be appropriate either, so under the current circumstances, in which China's domestic prices have not yet been brought into balance, it is quite obvious what the forces are which work against early reform of the foreign trade system. Since 1984, the price index in Shanghai has always been 3 to 5 percentage points higher than the

national average, and the proportion of highly processed goods among Shanghai's exports has also been above the national average. Conflict between the price structure and trade structure is quite pronounced. Under the new system, friction between the two will be further exacerbated.

#### **IV. Conflict Between Seeking Foreign Exchange or Seeking Renminbi**

"Should We Seek Foreign Exchange or Renminbi?" This question has been one of the major dilemmas facing local governments and trading enterprises. When local governments take responsibility for fulfilling a foreign exchange income quota, they do so within the context of a compulsory plan. The operational objective of trading enterprises is to fulfill export quotas handed down by the state. Even when international markets undergo disadvantageous fluctuations, bringing in foreign exchange remains the top priority for trading enterprises. They would rather reduce renminbi income and assure fulfillment of quotas for foreign exchange income. For a trading enterprise, their contract to deliver foreign exchange to the state can be viewed as a separate matter from their need to take responsibility for their own profits and losses in renminbi. Taking responsibility for profits and losses is seen only as a means to an end, so most trading companies which post losses in renminbi do exceedingly well in fulfilling quotas for foreign exchange income. These trading enterprises "eat from the communal rice bowl," and this problem has not been resolved in the new trading system. In the new system, just as in the old system, local governments act in concert with trading enterprises to fulfill central government quotas for total trade volume, foreign exchange receipts, and foreign exchange handed over to the central government. This could very well prevent the mechanism of taking responsibility for one's profits and losses from functioning properly. When trading enterprises once again find themselves caught in the dilemma of "seeking foreign exchange or renminbi," local governments may, under the pressure of a compulsory plan and faced with the temptation of maximizing their own local economic benefits, choose to resolve their problems by seeking the former. With local governments becoming involved in the trading activities of enterprises, it is highly unlikely that a trading system in which enterprises take responsibility for their own profits and losses will operate normally.

#### **V. Conflict Between Efforts To Expand "Using Imports To Aid Exports" and the Ability To Subsidize Losses**

Under the three-year contract system, the amount of central government subsidies to local governments depends upon the types of commodities exported in each locality. More specifically, it depends upon the costs in terms of foreign exchange for those commodities as determined by the government, and upon export quotas. The subsidies are not directly linked to actual foreign exchange revenues. Under the new system, in which all export subsidies have been eliminated, the only thing

trading enterprises can do is trade their retained foreign exchange earnings on the swap market for renminbi, and take advantage of the price differential to make up for losses incurred in trading activities. With the reform of the state planning system, already about 80 percent of export commodity prices fall within the scope of market regulation. For this reason, state quotas for raw and semifinished materials have been falling continuously, and the amount of foreign exchange used to import materials intended for subsequent export has been growing rapidly. This amount has remained above one billion U.S. dollars every year in Shanghai, which has forced net foreign exchange revenues at the local level to remain far below state quotas. The result of this situation is two-fold. First, in order to fulfill various quotas, enterprises are forced to export excessively, regardless of the fact that more exports mean more losses. Second, enterprises become trapped in "a vicious cycle" in which the more they "use imports to aid exports," the lower net foreign exchange revenues are, the lower their retained foreign exchange earnings are, and the weaker their ability is to subsidize their own losses. This has reduced the effectiveness of the strategy of developing an outwardly-oriented economy in the coastal areas.

#### **VI. Conflict Between Static Policies and Dynamic and Changing Business Activities**

Devaluation of the renminbi, elimination of subsidies, and the implementation of uniform foreign exchange retentions represent the core of the new foreign trade system, and these measures are closely connected with the development of China's foreign trade. The elimination of subsidies and the implementation of uniform foreign exchange retentions are administrative policies which do not generally undergo frequent change in response to changing trade conditions; it is only exchange rates which frequently change. From the perspective of current conditions, the overvaluation of China's currency and excessively high costs to trading enterprises in terms of foreign exchange are still the main factors impeding the expansion of exports. Furthermore, as domestic price reforms have progressed in recent years, the cost of export commodities in terms of foreign exchange has continued to rise. As an instrument of macroeconomic regulation for the state, exchange rate readjustments offer little room for maneuver, and in the end the only available choice is devaluation. Currently, the exchange rate for renminbi is 5.35 to 1 U.S. dollar. Currently, there is no coordinated set of policies to deal with the conflict between the new foreign trade system (which is based upon "static policies" such as currency devaluations, elimination of subsidies, and the implementation of uniform foreign exchange retentions) and the reality of "dynamic and changing business activities" (which are exemplified by the continually rebounding domestic economy, rebounding prices, a relatively stagnant world economy, and the exacerbation of protectionism in international markets). The effect of relying simply upon exchange rate policy is very limited.

In short, reform of China's foreign trade system has a long and difficult road ahead due to restrictive fiscal policies, the limitations imposed by the fact that various economic reforms face widely varying conditions, and the "congenital" weaknesses of the new system.

In view of the current problems of the foreign trade system, Shanghai should step up efforts to formulate a coordinated set of measures to deal with the situation. The city should use tax and credit levers to help exporting enterprises overcome difficulties so that, to the greatest extent possible, the satisfactory achievement of the objectives of reform can be assured. We must make a determined effort to readjust the export commodity mix. When it comes to export commodities which lose a lot of money, it would be better to take in less foreign exchange than to export blindly. We should encourage exports of handicrafts, high quality light textiles, technology intensive machinery and electronics products, and aerospace products which bring in a lot of foreign exchange and incorporate high amounts of technology. We must take the pressure which results from the elimination of trade subsidies and apply it to the restructuring of the product mix and the expansion of our international markets. We must strengthen control of trading enterprise prices, formulate the "Shanghai Export Commodity Price Control Method" as soon as possible, and resolutely prevent procurement prices from rising in response to exchange rate fluctuations. As long as we persevere and "fight a permanent war," this city's exports will certainly enter upon a cycle of healthy foreign exchange earnings and economic benefits.

#### **Customs Sees Increase in Oct Imports, Exports**

*OW0811043391 Beijing XINHUA in English  
0225 GMT 8 Nov 91*

[Text] Beijing, November 8 (XINHUA)—China imported goods worth 5.29 billion U.S. dollars last month, up 16.1 percent over the same period last year, according to statistics released here today by the state customs.

Exports last month reached 6.24 billion U.S. dollars, a rise of 6.1 percent over last year.

Among the increased imports, grain, sugar, paper pulp, wool, medicine and fertilizer top the list.

In the past 10 months, China exported a total of 55.73 billion U.S. dollars and imported 48.54 billion, an increase of 17.8 percent and 18.2 percent, respectively.

#### **Prices Rise for Machinery, Electronics Exports**

*OW0711052091 Beijing XINHUA in English  
1106 GMT 6 Nov 91*

[Text] Beijing, November 6 (XINHUA)—China's exports have been seeing a rise in prices of some machinery and electronics products owing to the improvement of their quality and the fluctuation of the international market.

Bao Chengren, vice-president of the Chinese Chamber of Commerce for Machinery and Electronics Import and Export, said here today that these commodities include electric fans, TV sets, bicycles, bearings, machine tools and diesel engines.

These commodities are being exported to the United States and West European countries.

According to Bao, the foreign trade companies, which have become responsible for their own benefits and losses, must seek markets by improving management and quality and promoting advanced technology.

Economists estimated there will be more technique-intensive products than labor-intensive products in China's exports in the coming five years and more importance will be attached to quality, variety and benefit.

China's machinery and electronics exports reached 10 billion U.S. dollars last year, accounting for 17.9 percent of the total export volume.

Electronics export accounted for 33 percent compared with 16 percent in 1985, Bao said.

#### **Anhui Prefulfils Foreign Trade Export Plan**

*OW0111142391 Beijing XINHUA Domestic Service  
in Chinese 0253 GMT 30 Oct 91*

[Article by reporter Wang Zhengzhong (3769 2973 1813)]

[Text] Hefei, 30 Oct (XINHUA)—As a result of implementing the system of full financial responsibility in foreign trade, Anhui—a province hit by severe natural disaster this year—has fulfilled the annual exportation task three months ahead of schedule.

In the first three quarters of this year, the province exported a total of \$540 million, exceeding the annual plan by 3.6 percent, or 15.3 percent up from the same period last year.

Meanwhile, 62 new foreign-funded enterprises with a total of \$20.78 million investments were approved. Compared with the same period last year, the number of foreign-funded enterprises has increased by over 100 percent, and the amount of foreign investment by 300 percent. More technologies have also been imported. In the first three quarters, 94 contracts on technology importation were signed. These contracts used a total of \$52.764 million in foreign exchange, exceeding 75 percent of the annual quota and topping the same period last year by \$19.070 million. Among the technologies to be imported are a train wheel production line for the Maanshan Iron and Steel Company, two polyester and one polyamide fiber production line for Tongling and Hefei, an air conditioner production line for Hefei, and other key projects. They will greatly beef up Anhui's stamina for developing the economy and increasing exportation.

**Guangdong Province Increases Foreign Investment**  
*OW141110591 Beijing XINHUA in English*  
*0830 GMT 14 Nov 91*

[Text] Guangzhou, November 14 (XINHUA)—Foreign investment is increasing in south China's Guangdong Province, boosting the local economy.

According to the provincial foreign economic relations and trade department, the province, where three of China's five special economic zones are located, concluded 6,125 contracts in the first three quarters of this year, up 14.7 percent over the same period of last year.

These contracts involved 3.82 billion U.S. dollars, an increase of 80 percent, and the actual use of foreign funds totalled 1.69 billion U.S. dollars, up 26.4 percent.

The first nine months saw direct foreign investment totalling 3.19 billion U.S. dollars in Guangdong, up 80 percent over the same period, and accounting for 83 percent of the total foreign investment in the province during this period.

There were 110 contracted projects each with foreign investment topping five million U.S. dollars.

According to statistics, the loans borrowed by the province from overseas in the first nine months of this year doubled the figure for the same period of last year.

Loans from foreign governments and international financial organizations increased by about 60 percent.

These loans are being used mainly in the development of energy, communications, telecommunications, urban infrastructure and the raw materials industries.

Meanwhile, Guangdong's business of processing with supplied materials, samples and machine pieces, as well as compensation trade is booming.

Dongguan City alone concluded 983 such contracts in the first nine months of this year.

**Fujian Guides Foreign-Funded Land Development**  
*OW1511021391 Beijing XINHUA in English*  
*0138 GMT 15 Nov 91*

[Text] Fuzhou, November 15 (XINHUA)—Fujian Province has promulgated new policies to guide land development projects using foreign investment.

The province has so far approved 25 foreign-funded land development projects, with a total investment of 480 million U.S. dollars. The projects have become an important channel for the province to attract foreign investment.

The newly formulated policies involve attention to matters such as environment and customs regulations and construction of basic facilities.

The policies also stipulate that the land area used for production purposes should not be less than 80 percent of the total area of each land development zone.

In addition, the government encourages investors to use more waste or uncultivable land. For each unit of cultivated land being used by foreign investors, two units of waste land should be reclaimed at the same time.

According to the rules, all the projects in the land development zones should start construction within two years.

The new policies also stipulate that basic facilities in land development zones should mainly be funded by foreign contractors, to keep the country's investment in supplementary facilities as low as possible.

**ECONOMIC ZONES**

**Hainan's Yangpu Port Project Set To Begin**  
*HK0911071991 Hong Kong SOUTH CHINA MORNING POST in English 9 Nov 91 p 10*

[Text] Hainan island's ambitious Yangpu port development, once stalled by opposition from hard-liners in the Chinese leadership, is finally about to get off the ground.

Vice-governor of the province, Mr Mao Zhijun, and the Hong Kong developer, Kumagai Gumi, pledged their full support to the project and said construction would start as soon as they had endorsement from the State Council.

The scheme was the brainchild of former Hainan governor, Mr Liang Xiang, who was sacked in late 1989 for his close relationship with disgraced party boss Mr Zhao Ziyang.

According to the agreement, Kumagai Gumi will lease 30 square kilometres of land for 70 years in Yangpu port at the northwest tip of the island.

Factory buildings, warehouses, power plants and port facilities will be built by Kumagai Gumi which will recoup its investment mainly through the sale of factory space.

Hard-liners claimed the long lease given to overseas corporations infringed national sovereignty and would turn Hainan into a "colony" controlled by foreign capitalists.

But both Mr Mao and Mr C.P. Yu, managing director of Kumagai Gumi, yesterday said this hurdle had been overcome and the project would definitely go ahead.

"The long delay has to do with a lot of factors, internal and external," Mr Mao said.

"At first, foreign investors were doubtful about the project after what happened on June 4 [the Tiananmen Square massacre]... and when the Gulf war came, the developer [Kumagai Gumi] said it definitely had to wait," Mr Mao said.

Mr Yu was optimistic that the scheme would soon be approved by the State Council and foreign capitalists would eventually return to the island.

"We have signed the agreement. The contract will come very soon," he said.

Vice-governor Mr Mao claimed the island had fully recovered from the aftermath of the June 4, 1989 crackdown on the pro-democracy movement.

"There was a very short time after the June 4 incident when foreign investors hesitated to invest in Hainan, but that period is over," he said.

Meanwhile, Mr Mao confirmed that Mr Yu Xiafu, director of the Yangpu Port Office had been replaced by his deputy, Mr Ding Xilong.

### Lianyungang Speeds Up Construction of Open Projects

*OW1811092391 Beijing XINHUA in English  
0853 GMT 18 Nov 91*

[Text] Beijing, November 18 (XINHUA)—After five years of construction and development, Lianyungang, a port city in Jiangsu Province, has achieved spectacular results in its construction of open projects, INTERNATIONAL BUSINESS [GOUJI SHANGBAO] reported today.

In the past few years, the city has paid special attention to improvement of the investment environment. With an accumulated investment of 2.5 billion yuan, the city has built three breakwaters, four grocery berths, and two 10,000-ton timber berths.

The designed handling capacity of the port has reached 16.45 million tons, according to the report.

Meanwhile, feasibility study for the construction of 100,000-ton berths in Lianyuangan port has been finished, setting the foundation for the construction of a deep-water port here. Regular cargo shipping has also been opened from the port to Hong Kong, Japan, Singapore, Malaysia, South Korea, Thailand and other places.

Other service facilities, such as post and telecommunications, hotels, shops and cultural centers, have also been improved.

Lianyungang has ratified 98 foreign-funded projects, using foreign funds of 314 million U.S. Dollars.

### Hainan Province Attracts More Investment

*OW1011134891 Beijing XINHUA in English  
1327 GMT 10 Nov 91*

[Text] Haikou, November 10 (XINHUA)—Hainan Province attracted 230 [word indistinct] U.S. dollars in foreign investments and one billion yuan in investments from other provinces during the first three quarters of 1991.

Foreign investments amounted to a 1.9-fold increase over last year in the same period. In addition, over 300 joint ventures were granted rights to establish ventures in the province during the period, with an 84 percent increase.

Some 76 percent of the foreign investments went into industrial and agricultural related projects. Compared with 1988, a greater portion of foreign investment has turned from labor intensive enterprises to technology related enterprises.

During the period, other provinces formed more than 370 cooperative ventures with Hainan. The province has received over one billion yuan in the form of domestic investments, and the Anshan Iron and Steel Company has invested the largest amount—over 100 million yuan—in the Yonggui Development Zone in Haikou, the provincial capital.

Along with improving the economic situation, the real estate business in the province is brisk and is attracting increased investments. The average purchase price for an apartment has risen from 1,200 yuan to 1,700 yuan per square meter. The 200 million yuan Longzhu Mansion, which was built by the Hainan Zhujiang Corporation, was sold recently for 3,500 yuan per square meter.

### Ningbo Invests in Port Construction

*HK1311003491 Beijing ZHONGGUO XINWEN SHE  
in English 1432 GMT 12 Nov 91*

[Text] Macao, Nov 12 (CNS)—Ningbo City, putting an emphasis on improving its investment environment, has injected over RMB [renminbi] 1 billion into port construction, the Vice Mayor of Ningbo, Mr Chen Zheliang, said at the Ningbo Export Commodities Fair being held here.

Beilun is a natural deep-water port in Ningbo, Zhejiang Province, and is one of the international deep-water hub ports along the coast of China. In order to meet the needs of opening up to the outside world, Ningbo has since 1978 invested more than RMB 1 billion in port construction. To date, the city possesses 17 berths for vessels of over 5,000 tonnes, 16 of which are deep-water berths for international container ships of over 10,000 tonnes. Berths used for handling production last year numbered 45, with a total annual handling capacity of nearly 50 million tonnes.

Ningbo has so far handled direct freight with 225 ports in 53 countries and regions, Mr Chen said. The main railway line operating on a supplementary basis is in service and Lishe Airport has 11 domestic air routes including Ningbo to Beijing and Guangzhou as well as one-stop chartered flights to Hong Kong. Ningbo has also installed a direct dial telephone service for linking with the rest of the country and abroad.

Improvement in the investment environment, according to Mr Chen, has attracted foreign investments to

Ningbo, which now boasts over 400 foreign-funded enterprises. More than half of the foreign capital came from Hong Kong, followed by Taiwan, the United States, Japan and Macao. Items attracting the greatest investment were electronics, light textiles and chemical polyester fibre. Enterprises engaging in these businesses generally produced sound economic results.

Ningbo will boost its economic links and cooperation with Hong Kong and Macao in various fields such as trade, investment, labour services and tourism, Mr Chen said, adding that he wished more Hong Kong and Macao compatriots would invest there.

## TRANSPORTATION

### Local Railways Play Increased Role in Economy

HK1012060491 Beijing CHINA DAILY in English  
10 Dec 91 p 1

[Article by staff reporter Hu Yong: "State Train Fast Track Riding on Local Rails"]

[Text] China's booming local railway system, which has helped ease the over-burdened State railway network, will play an ever-increasing role in the national economy, a senior railway official said yesterday.

Tian Benhuai, secretary-general of the Local Railway Association, a special agency set up in 1984 by the Ministry of Railways to help manage local railroads, told CHINA DAILY that 1,044 kilometres of new local railways are now under construction across the country, and another 356 kilometres will soon be built.

These lines, together with 4,400 kilometres of local railways built over the past years, comprise more than one-tenth of the current 53,000 kilometres of state-run railways.

If these developments progress as planned, 6,000 kilometres of new local railways will be completed within the next 10 years, extending the total mileage of local railways to more than 10,000 kilometres by the end of year 2000, Tian said.

The recent fast development of local railways prompted this ambitious plan, he said.

Local railways, different from the state-run ones, are funded by provincial or urban public and collective sources, and their operations are usually handled by local administrations. China started building local railways in the 1950s, although they only began expanding with economic reforms that came 20 years later.

More localities began to realize the importance of railways as a linchpin of economic growth. Since then, the State has helped these areas with funding for railway development.

Recent statistics from the association show that 1,600 kilometres of local railways were built during the Seventh Five-Year Plan period (1986-90) at a cost of 1.72 billion yuan (\$320 million), while at the same time, 1,700 kilometres of State-owned railways were built with a government investment of nearly 50 billion yuan (\$9.3 billion).

Local railways have carried about 300 million tons of freight and 60 million passengers in the past five years.

At present, these railways are in service or under construction in 26 provinces, autonomous regions and municipalities, with the coastal areas taking the lead in freight turnover.

For example, Tianjin Local Railways Administrative Bureau last year reported an output value of 60 million yuan (\$11.2 million) and profits totalling 9 million yuan (\$1.7 million). Its 136-kilometre-long railway delivered 4.7 million tons of freight and 330,000 passengers.

Bureau director Kuang Xianfu said these lines are vital to the development of the local economy. Large-scale enterprises, such as oilfields and power and chemical plants, depend on them to transport materials and products. With the launching of new economic and technological development areas, local railways also help attract investors.

He said Tianjin railways are mainly financed by nongovernmental sources, especially businesses located along the train lines. Other financial channels include State subsidiaries and loans as well as foreign loans.

### Changchun-Nanjing Air Route Opens

SK1012074291 Changchun JILIN RIBAO in Chinese  
31 Oct 91 p 1

[Article by reporter Zhang Jingbo (1728 2529 3134): "Changchun-Nanjing Air Route Opens"]

[Text] On the evening of 10 October, a 147-seater MD-82 passenger airplane landed safely at Daxiaochang Airport in Nanjing. At that point, the history of no scheduled flights between Changchun and Nanjing was declared at an end.

This civil air line, with the China Beifang Airline Company undertaking the actual flying, has decided to provide one flight every week (on Wednesday). A civil airliner will take off from Changchun at 1515, and land in Nanjing at 1710. As an "air link" between Jilin and Jiangsu Provinces, this air route has reduced the transport time from 30 hours (calculated according to the time needed by the No. 148 railway passenger train) to one hour and 55 minutes. The opening of this route will make political, economic, and cultural exchanges between the two provinces even more frequent. This is undoubtedly a blessing.

**AGRICULTURE****XINHUA Reviews Spark Plan**

*OW0712222391 Beijing XINHUA Domestic Service  
in Chinese 0500 GMT 7 Dec 91*

[XINHUA Roundup on Spark Plan by reporter Yang Zhaobo (2254 0340 3134) and trainee Lang Guohua (6745 0948 5478): "Sparks Ignited Throughout China"]

[Text] Beijing, 7 December (XINHUA)—The "spark" is "burning and expanding" at both sides of the Great Wall and at both banks of the Changjiang. The "spark" emits the light of hope and points to a bright future.

The spark plan, aimed at invigorating rural economy with science and technology, has in the last five years, melted the solid ice of the natural economy like a prairie fire, driven away the plague of ignorance and backwardness, and brought vitality to the commodity economy in the great land of China's rural areas.

**Spread "Riches" to Mankind**

In the mid 1980s, two big social trends have had immense impact on the great land of China. One of them was the promotion of the responsibility system linking remuneration with output in the rural areas and the other was the rise of rural enterprises. Implementing the responsibility system and emerging enterprises in rural areas greatly stimulated farmers' production enthusiasm, whetted their appetites for science and technology, and prompted their earnest calls to scientists and technicians to help them. Despite the great demand, a large number of scientific and research results were "like a beautiful damsel cloistered deep in her boudoir, her beauty is unknown to all." In a sense, a "cordon sanitaire" is thrown between the urban and rural areas and between science, technology and the economy.

Such a reality gives rise to the birth of the spark plan, whose purpose is to sow the seeds of science and technology in rural areas; offer guidance to 800 million farmers to invigorate farming through science and technology; assist the healthy development of rural enterprises; and promote farm modernization and accelerate the process of industrialization in rural areas.

The spark plan was the first development plan ever approved by the CPC Central Committee and the State Council in the 1980s to promote economy through science and technology.

Implementing the spark plan was thus set in motion. Following the successful pilot "Taihangshan Spark Plan Project," hundreds and thousands of scientists and technicians in the nation left their laboratories in the cities and went to work on farmland, in the mountains, in enterprises. They worked together with millions of farmers to invigorate agriculture through science and technology. Tianjin municipality alone mobilized some

20,000 scientists and technicians from some 200 scientific research institutes and from 30 higher institutes of learning to engage in the work of "Spark" scientific and technological development projects; altogether they have helped created 1.5 billion yuan of output value. To date, over 20,000 scientific and technological projects under the Spark plan have been undertaken throughout the nation resulting in creating some ten billion yuan of new output value. The Spark plan not only brings immediate results but will also benefit future generations. For the rural economy, it is like delivering coal in a snowy winter. It fulfills the objective needs of farmers. It brings changes to small-scale operations, the traditional production method of Chinese farmers. Implementing the spark plan has enabled many localities to develop their own economies in line with their local conditions. In just several years' time, it helped group together many farming households and small enterprises into a big enterprise group. Farmers were heard to say: The party's policy is good; it makes us rich. Intellectuals noted with deep feeling: Implementing the Spark plan is really a great practice proving science and technology are the primary productive forces.

**The Spark Plan Has Trained Qualified Personnel and Helped Raise People's Awareness for Science and Technology**

Farmers began to learn the power of knowledge through implementation of the spark plan. Over five million scientific and technological personnel have been trained in recent years. With better knowledge and broadened vision, farmers' initiative is brought into play. Farmers in China's northeast, now liberated from the enforced state of "hibernation" in winter, are now turning the slack season into a busy one. Farmers in Henan's Neixiang County solicited assistance from their relatives and friends to join the local bee-keepers association.

Implementing the spark plan has created big opportunities for farmers who toil for generations on farmland; they now become technicians and entrepreneurs. Even foreigners said: Chinese farmers are educated; there are many talented farmers in China. Many rural areas established various technical service organs such as production associations, specialized trade associations, research societies and technical associations to meet with local economic development. Zhejiang established a rabbit breeders service network in Shengxian County; a bee-keepers service association in Xiaoshan City; a precision engineering development association in Huangyan City; and a ceramic technical production development association in Hainin City. Farmers assume all leading positions at those associations.

**Remarkable Economic and Structural Effects**

Virtually all of the developed countries in the world were unable to avoid taking the road of "sacrificing agriculture to develop industry" in their early development. Our country's situation does not allow us to copy other developed countries since we have 800 million farmers

whose lives depend on the farmland. The spark plan enabled them to shake off poverty and live a well-off life. Five years of implementing the spark plan has seen an early and overfulfilment of three objectives. By early 1990, over 20,000 state and locality-sponsored spark plan projects with accumulated investment of over 12.5 billion yuan were commissioned. Of the over 20,000 seeds sown, some 10,000 have come to fruition, resulting the creation of a new output value of over 20 billion yuan, in delivering over 5.5 billion yuan in profits and taxes to the state, and earning \$2.3 billion in foreign exchange. A total of 207 categories of advanced and practical equipment in 100,000 sets were promoted in rural areas. A large number of national and regional industrial groups whose output value ranging from 10,000 yuan to over 100 million yuan have emerged throughout the nation.

The economic effects obtained through technological progress and through readjusting the industrial structure and product mix in rural areas are incalculable. It shows in the following ways:

1. The spark plan contributes to the formulation of industrial development plans and development strategies by taking into consideration local resources and socio-economic conditions.
2. Selective absorption of foreign technology helps localities readjust production structure suitable to local conditions.
3. The spark plan helps create an environment for large scale commodity production by promoting the establishment of various types of scientific and technological service organizations.

The spark plan has brought about the emergence of a large number of county and township-level "Spark" industries. It has also helped build up a national network in the areas of animal husbandry, fruit growing, processing, and transportation.

#### Tobacco Industry Decreases Production

OW0812061591 Beijing XINHUA Domestic Service  
in Chinese 2136 GMT 7 Dec 91

[Article by Xu Kehong (1776 0344 3163): "Efforts To Limit Production and Reduce Stock Have Enabled the Tobacco Industry To Sharply Decrease Output and Improve Efficiency"]

[Text] Beijing, 8 December (XINHUA)—Efforts to limit cigarette production have yielded unexpectedly good results in Yunnan Province, China's largest tobacco production province. The province's cigarette production this year is 120,000 cartons fewer than the last year while the amount of profits and taxes delivered to the government by the province's tobacco industry are 170 million yuan more than last year. In addition to Yunnan,

cigarette production in Shanghai, Guizhou, Shandong, and Henan also has dropped and their tobacco industry's efficiency has improved.

Jiang Ming, director of the State Tobacco Monopoly Administration, recently told this reporter: The situation has been quite good since tobacco enterprises across the country took measures to limit production and reduce stocks. Even though cigarette production has decreased by 1.5 million cartons from last year's figures, it is expected that the amount of profits and taxes to be delivered to the government this year will not only fail to decline but will be more or less greater than last year. Viewing the situation in the tobacco industry, the State Council's decision to limit production and reduce stocks is a wise move that injects new life to the entire tobacco industry.

It has been learned that quite drastic measures have been taken to limit production and reduce stocks by the tobacco industry, which is the first among all industries to take such measures. The production of one-eighth of slow-selling cigarette brands has been suspended, and more than 20 cigarette factories not included in the government's plan have been shut down. Yunnan, Henan, Hunan, Shandong, Hebei, and other major tobacco production provinces have suspended production of more than 60 brands of cigarettes and limited the production of more than 30 others. Henan has suspended the production of 18 brands and Shandong 21. The tobacco industry's practice to continue production while the stock accumulates has been effectively done away with.

To try to maintain overall profits and taxes and the central government's financial revenue at a level equal to last year's while striving to limit tobacco production and reduce stocks, the State Tobacco Monopoly Administration and the China Tobacco Industry Corp. have readjusted some provinces' tobacco production targets while taking necessary measures to ensure that the targets of limiting production and reducing stocks are met. Provinces with excess stocks have been asked to decrease production, and provinces where cigarettes have been in short supply have been asked to appropriately increase production, thereby ensuring a stable market and smooth work in reducing stocks. According to market demands, the China Tobacco Industry Corporation has increased the production of famous brand names and good-quality cigarettes. The production of 49 Class-A famous brand names of cigarettes listed in the government's plan has risen by 400,000 cartons over last year's production figures. Production of three of these 49 famous brand names of cigarettes has risen by 200,000 cartons over last year's production figures, signifying a 16 percent increase.

According to figures provided by the State Tobacco Monopoly Administration, from January to November of this year, the country's cigarette production was 1.65 percent less than the same period last year, cigarette stock was 1.167 million cartons fewer, funds tied up by

products and finished products were 1.75 billion yuan less, and the product mix in the tobacco industry's stocks became more reasonable. Viewing the current cigarette market, sales of all kinds of cigarettes have been active

since efforts were taken to promote good-quality cigarettes and to eliminate poor-quality ones. Tobacco enterprises' efforts to dump little-known name brands in the past have become unnecessary.

**Poll Indicates Urban Residents Feel More Secure**  
**92CM0077A Hong Kong LIAOWANG [OUTLOOK]**  
**OVERSEAS EDITION in Chinese No 43, 28 Oct 91**  
**pp 14-15**

[Article by Liu Ching-huai (0491 2417 2037): "China's Urban Residents' Sense of Security Improves"]

[Excerpts] Results of the second national survey on "The Public's Sense of Security" announced by the Ministry of Public Security recently in Beijing show that the level of China's urban residents' sense of security has increased over the first "The Public's Sense of Security" survey conducted on the same scope in 1988.

The survey was conducted by the Ministry of Public Security's Public Security Institute from May to June of this year. It surveyed 15,000 urban residents above the age of sixteen in 75 regions (municipalities), 150 urban regions and 75 counties, 375 neighborhoods (townships) and 750 neighborhood committees in the 15 provinces, autonomous regions, and municipalities directly under central jurisdiction, of Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Jiangxi, Hubei, Guangdong, Guizhou, Shaanxi, Sichuan and Xinjiang, and 14,860 valid questionnaires were received. According to specialists in sociology and statistics, the survey was reliable and the questionnaire design was scientific and rational.

The survey questionnaire contained 51 topics that basically included all areas touching on public security.

"In today's public security environment, what is your feeling of security?" This was an important topic in the survey questionnaire. Of the residents participating in the sample, 1,085 people, or 7.3 percent of the total, answered that they felt "secure"; 6,500, or 43.7 percent, felt "pretty secure"; 2,666, or 17.9 percent, felt "generally secure"; 3,412, or 23 percent, felt "not too secure"; and 1,111, or 7.5 percent, felt "insecure." These figures show that in the current environment of public security, the Chinese residents overall evaluation of sense of their own security has generally risen. In the 1988 survey, the proportions of residents surveyed who felt "secure," "pretty secure," "generally," "not too secure," and "insecure" were 7.9 percent, 23.1 percent, 30.4 percent, 27.5 percent, and 10.9 percent, respectively, with the overall evaluation generally lower.

Specific indications of increases in the level of urban residents' sense of security were that the number of people who dared to walk the streets alone at night clearly increased, the proportion of female employees who needed someone to accompany them to and from work on the night shift declined, and the proportion of single people at home who would be afraid of a visit from a stranger also declined. The survey questionnaire data demonstrated that 68.8 percent answered the question "Do you dare to walk the streets alone at night?" affirmatively, while in the 1988 survey it was only 50.9 percent. [passage omitted]

For a time, the issue of public security has been a top issue of people's concern. At the time of the 1988 survey the issues of most concern to people were, in order of importance, prices, wages, public security, social mood and education. In this survey, prices and wages share first place, honest government is second, and social mood and education are in third place. Public security has dropped from second place to last place, dropping from 28 percent in 1988 to 16.7 percent. This shows that public security is still a matter of concern, but it is no longer a hot topic.

Related to this index is the surveyed residents' evaluation of the situation in public security. In answering the question "Do you think the public security situation now is better or worse than two years ago?" Forty-seven percent or 6,779 people, thought it was better than two years ago, 5,786, or 38.9 percent, thought it was about the same as two years ago, and 1,995, or 13.4 percent, thought it was worse than two years ago. The results of the answers to the question "what is your evaluation of the public security situation now?" were that 5.3 percent thought it was very good, 32 percent thought it was pretty good, 41.6 percent thought it was alright, 17.1 percent thought it was pretty bad, and 3.7 percent thought it was very bad. Compared with the 1988 survey, those who thought it was very good increased 1.6 percent, those who thought it was pretty good increased 11.1 percent, those who thought it was pretty bad and very bad, declined 4 percent and 1.4 percent, respectively. Specialists say that these results show that the level of people's overall evaluation of the public security situation now also is improving. [paragraph omitted]

One of the goals of this "Public Sense of Security" survey was to listen to opinions of the public on social order and public security organizations to improve the work of public security organizations and enhance overall control of social order. For this reason, many of the questions posed in the questionnaire touched on the views of the public on the work of public security organizations. The survey results indicate that in recent years public security organizations' resolute attacks on criminals and improving administration of public order have earned the trust of the masses.

The results of the question "are you satisfied with the work of public security organizations?" were that 25.6 percent expressed satisfaction, 33.3 percent said they were pretty satisfied, and 10.5 percent said they were dissatisfied. These results are 20 percentage points higher in the degree of satisfaction with the police compared with the results of the survey two years ago. [passage omitted]

The survey results of questions involving the relations between the police and the public and police work show that when they called on the police for help in an emergency, 53.6 percent of the residents felt that they were conscientious and responsible, an improvement of 6 percentage points compared to the 1988 survey. Can you see a policeman on patrol maintaining public order

in the vicinity of your home? Of the residents surveyed, 67.9 percent said they could, an increase of 7.9 percentage points over the 1988 survey.

Whether or not illegal infringements were reported to the public security organizations indicates, in a certain sense, the degree of the public's confidence in public security organizations. This survey indicates that 77 percent of the people said they reported them to the police after the event, which is a 13 percentage point increase over the 1988 survey. Only 2.1 percent did not dare report them to the police, a drop of nearly 28 percent over the 1988 survey.

Daring to give evidence to the police both indicates an improvement in the public's awareness of the legal system, and an increase in courage to fight criminals, and also manifests the public's confidence in and support of the police. In this survey, in answer to the question, "if a case required witnesses to testify" 67.7 percent of the people said they were willing to testify, nearly a 15 percentage point increase over the 1988 survey.

Directly related to the increase in the degree of confidence in the police is that the number of people who dare to fight back when running into an illegal encroachment has increased. At the time of the 1988 survey, only 46.3 percent dared to fight back, but in this survey it increased to 60.1 percent. When a resident encountered someone in the act of committing a crime, the number of persons who would dare to stop them was 25.2 percent in 1988, but in this survey it increased to 44.3 percent. This indicates that there has been an improvement in China's urban residents' awareness of self-defense and willingness to get involved for a just cause.

Although the results of this "Public Feeling of Security" survey indicates that there has been an excellent turn for the better compared to the time of the 1988 survey, and that urban residents have fully affirmed the results obtained in social order. However, the results of this

survey still indicate that the threat of criminal offenses still cannot be ignored. The impact of fear created by strengthening public security and delaying release of criminals is still the universal demand of urban residents.

When the survey questionnaires asked urban residents who had received the survey to evaluate the degree of seriousness of current crime, 10.3 percent felt that it was serious, 44 percent felt it was pretty serious, 25.1 percent felt the situation was about the same, 19.8 percent felt it was "not too serious" and "not serious." From this we can see that in the attitude of the overwhelming majority of the broad urban residents, China's current situation in public security is still rather grim, and the masses are still very concerned about the question of crime.

The results of this survey indicate that the broad urban residents strongly demand and support the government's continued severe attack on crime in accordance with the law to check an increase in crime. Of the urban residents who received the survey, 34 percent felt that the current government and legal organizations' attack and prosecution of criminal activity was too lenient, 42 percent of the residents felt that the current attack and prosecution of criminal activity was sometimes lenient and sometimes severe, but only 21.5 percent of the residents felt the degree of severity was just right.

In the survey questionnaires, residents who received the survey demanded that public security organizations improve management of social order, strengthen preventive measures, and stabilize and improve the level of the public's sense of security. Among them, 28.4 percent of the people demanded improvement in the help and education given to young offenders, 18.1 percent demanded beefing up of public security patrols, and increasing visibility of public security and joint defense personnel; 17.8 percent demanded that public security organizations enforce the law fairly, justly and conscientiously, and vigorously maintain social order.

## NORTH REGION

### Ulanhu, Family Members Profiled

92CM0011A Hong Kong CHAO-LIU [TIDE] in Chinese No 8, 15 Aug 91 pp 17-20

[Article by Yen Jen-kuan (6050 1804 1401): "All Family Members of 'Mongolian King' Ulanhu (3527 5695 1133) Are High Officials"]

[Text] Among the third and fourth "successor" generations, the sons and daughters of high-level cadres play an important role. However, some cadres who have risen to high positions are not at all—as the "tabloid press" had reported—family members of high-level cadres. For instance, Chi Haotian [6688 3185 3944], member of the CPC Central Committee and chief of staff, is not the son-in-law of Yang Shangkun [2799 1424 2492], and Jiang Zemin [3068 3419 3046] is not the son-in-law of Li Xiannian [2621 0341 1819]. To truly establish the background of the new generation of high-level cadres requires reliable evidence, and by one-sidedly trusting the "tabloid press" one would possibly be only spreading falsehoods.

### High Government Positions Held by Bu He [1580 6378], Wu Jie [3527 2638], and Yun Shufen [0061 2562 5358]

Bu He, who is now deputy secretary of the Inner Mongolian Autonomous Regional CPC Committee and chairman of the Inner Mongolian Autonomous Regional People's Government, and Wu Jie, who is a vice governor of the Shanxi Provincial People's Government, are the sons of Ulanhu (1906-December 1988), and these are indeed true facts.

In an article entitled "Rushing to the Embrace of the Party," written by Bu He and published in the special edition of Beijing's PEOPLE'S DAILY to commemorate the 70th anniversary of "1 July" [anniversary of the founding of the PRC], he said: "Influenced by the older generation of proletarian revolutionaries, such as my father Ulanhu, I have from childhood on cherished a feeling of great reverence for the Communist Party."

Wu Jie wrote the following phrase on the title page of his *On System Dialectics*: "Dedicated to my beloved mother Yun Ting [0061 0080] and my beloved father Ulanhu." Wu Jie had been deputy mayor of Chifeng City and mayor of Baotou City in Inner Mongolia and was transferred only last year to the position of vice governor of Shanxi Province.

Apart from Wu He and Wu Jie, their cousin Yun Shufen was also for a long time a high-ranking cadre in Inner Mongolia. She is now vice chairperson of the Inner Mongolian People's Political Consultative Conference, ranking equal to the provincial vice governor.

Having three persons of one family, one female and two male, serve as high-ranking cadres in one and the same province (autonomous region) is a comparatively rare

occurrence and shows indeed the solid political base that Ulanhu has had in Inner Mongolia.

The two brothers Bu He and Wu Jie each played distinctive roles on the political stage of the Chinese communist regime. Bu He had a long history of political service. He is fond of literature and art and became well-known during 1957 to 1966 for his initiation and development of the "Wu-lan mu-qi." The so-called "Wu-lan mu-qi" was a small mobile cultural troupe that performed [popular songs and dances] in the countryside. As a result of the success of the "Wu-lan mu-qi," Bu He became chairman of the Inner Mongolian Federation of Literature and Art Workers. In those seven or eight years, he was a big name in the Inner Mongolian reform party. He not only promoted economic reform, but also on a small scale initiated reform of the political structure, and among these efforts, the experimental administrative reform in Zhuozi County attracted the serious attention of theorists of the reform party and made him also a person very much in demand for interviews by Shanghai's WORLD ECONOMIC NEWS.

Wu Jie, on the other hand, in addition to his participation in politics, showed no interest in literature and art but rather in the theory of system cybernetics, on which subject he published a monograph of about 230,000 characters.

Another difference from his elder brother was Wu Jie's educational background. He had received an excellent regular education. In his earlier years he had studied in the Soviet Union and also studied in the United States early in the 1980's. His elder brother has had no overseas experiences and has had only the "irregular" education of a "hick eight route army man."

### Ulanhu's Ultimate Power in Inner Mongolia's Party, Government, and Military

Among the high-ranking cadres of ethnic minorities, Ulanhu of the Mongols, Wei Guoqing [7279 0948 3237] of the Zhuang [0302], and Seypidin of the Uygurs, all had at one time been members of the CPC Politburo, but Ulanhu's political position was the highest. It can be traced back to pre-Marxist times and he still has excellent relations with Deng Xiaoping.

Among the Mongolians, Ulanhu is a veteran of the CPC and a founder of the underground CPC in the Inner Mongolian region (originally the area of Suiyuan, Charhar, and Jehol). He went to Moscow in 1925 and studied at the Sun Yat-sen University and the Far East University. There, though at a different time, he was a fellow student of Deng Xiaoping and Yang Shangkun. In 1929 he returned to China and engaged in underground activities in North China, in areas inhabited by Mongolians. In 1941, he transferred to Yen'an and became director of the Nationality Institute's Education Department, which was in charge of the training of Chinese communist cadres from among the ethnic Mongolian, Hui, and Tibetan population.

Ever since first assuming the chairmanship of the Suiyuan-Mongolia Government of the CPC in 1945, Ulanhu has been the highest-ranking CPC cadre in Inner Mongolia. In the 1950's and 1960's, while he was also vice premier of the PRC's State Council, chairman of the Minorities Affairs Commission, and second secretary of the North China Administrative Council, he still held the offices of first secretary of the Inner Mongolia CPC Committee, chairman of the autonomous region government, and commander and political commissar of the Inner Mongolian Military Region, thus combining in one hand the ultimate party, government, and military powers of the CPC in Inner Mongolia.

Before the Cultural Revolution, Ulanhu was in a unique position in that he held an important position in the CPC's central organ and at the same time controlled the regional power. When he was purged by Mao Zedong in 1967, the Red Guard newspapers called him "King of Mongolia."

After the Cultural Revolution period, Ulanhu came back comparatively early and moved into high-ranking cadre positions. In 1973 he was slated to become member of the 10th CPC Central Committee. In 1975 he rose to vice chairman of the Standing Committee of the National People's Congress, and by 1983 he had become vice president of the PRC. When Wang Zhen [3769 7201] succeeded him as vice president of the PRC in the April of 1988, Ulanhu retained his position of vice chairman of the Standing Committee of the National People's Congress, although by that time already 82 years of age, an indication of the "gracious concern" for him shown by Deng Xiaoping.

He has also had a long history in the CPC Politburo. During 1956 to 1966, he had been an alternate member and from 1977 to 1987 a full member of the Politburo.

#### Bu He Trained at Yen'an and as Inner Mongolian Official

Bu He's original name was Yun Shuguang [0061 2562 0342]. He was born 1926 in the area of the Tumd Left Banner in North China's Suiyuan Province. At that time his 20-year-old father Ulanhu was studying in Moscow, so that he grew up under the care of his mother Yun Ting.

Bu He studied at the Tumd primary school in Guisui (now called Hohhot), the provincial capital of Suiyuan Province. In 1939, at age 13, he was brought to Yen'an, together with his cousin Yun Shufen, by Kui Bi [1145 1084], to study there at a certain middle school. Kui Bi (1902-1986) was a fellow villager and comrade-in-arms of Ulanhu and had been in the early years an underground CPC cadre in Mongolia when he was, from the end of the 1940's on, Ulanhu's major assistant in Suiyuan and in Inner Mongolia. At one time he had been deputy secretary of the Inner Mongolian Committee of the CPC and vice governor of the autonomous regional government.

In 1941, at age 15, Bu He entered the Yen'an Nationalities Institute for political training, the director of the said institute's education department at that time being his father Ulanhu.

In 1947, the CPC established in North China within the area it had occupied a so-called Inner Mongolian Autonomous Regional Government and appointed Ulanhu as that government's chairman. Bu He then became director of a cultural troupe which was set up within the establishment of the Inner Mongolian government.

Since 1949, Bu He was engaged in CPC affairs within the Inner Mongolian cultural system and held such posts as secretary of the party organization in the Bureau of Cultural Affairs and deputy director of the said bureau.

When the Cultural Revolution erupted in 1966, Bu He was linked to the proceedings against Ulanhu and was consequently purged and dismissed from his positions. He made his come-back in 1975 when he was appointed director of the propaganda department of the Inner Mongolian Affairs Committee of the CPC.

During the last years of the 1970's, Bu He was at the State Council in Beijing in the position of vice chairman of the State Nationalities Affairs Commission (which had Yang Jingren [2799 7234 0088], an ethnic Hui cadre, as its chairman), working under the indirect guidance of Ulanhu, director of the CPC's United Front Work Department.

Early in the 1980's, Bu He was transferred back to Inner Mongolia to be first secretary of the CPC Committee of Hohhot Municipality and mayor of said city.

The year 1982 was the year when Bu He really took off on the political stage, as he was then approved for membership in the CPC Central Committee and promoted to deputy secretary of the Mongolian Affairs Committee. In the following year, he became concurrently chairman of the Inner Mongolian Autonomous Government, thus becoming second-highest ranking person at the CPC's leadership level in Inner Mongolia.

#### Enlightened Elements Pushing for Economic Reforms in Agriculture and Animal Husbandry

Since 1982, Zhou Hui [0719 1920], Zhang Shuguang [1728 2562 0342], and Wang Qun [3769 5028] had been secretaries of the Inner Mongolian Affairs Commission of the CPC. In 1959, Zhou Hui criticized the "Great Leap Forward" and the "people's communes," and thus became implicated in the case of the "Peng-Huang anti-party clique" [names refer to Peng Dehuai (1756 1795 2037) and Huang Kecheng (7806 0344 6134)] and was demoted from CPC secretary of Hunan Province to deputy director of the Communications Industry Bureau of the Ministry of Communications in the State Council. He later also suffered bitterly during the Cultural Revolution. After his return to Inner Mongolia, he energetically promoted the structural reform of the rural economy. Zhang Shuguang, who succeeded Zhou Hui in

1986, was formerly a cadre of the Communist Youth League [CYL] of Hu Yaobang [5170 5069 6721] and had held the position of head of the CYL Central Peasant Youth Department and deputy director of its business affairs office, also of first secretary of the Youth League Commission of Yunnan Province. During his term of duty in Inner Mongolia he devoted himself enthusiastically to the economic reform in town and countryside.

Among the leading CPC cadres on the local level, Bu He is considered one of the more enlightened personalities. He promoted the production responsibility system in agricultural and pastoral areas and worked most vigorously for the output contract system and for the individual farming system, thereby resolving many of the "basic livelihood problems" of the peasants and herdsmen. By the middle of the 1980's, all town enterprises in Inner Mongolia had generally instituted the contract system. Bu He had also devoted quite some time and energy to efforts in this field. The trial institution of structural reforms in the administration of Zhuozi County is also inseparably linked with the support given to it by Bu He.

Bu He is by now already in his sixties and will at most have two years more until he will reach the retirement age for provincial governors, when he will have to retire and move on to become chairman of the Inner Mongolian People's Political Consultative Conference. The person to succeed him as deputy secretary of the CPC Committee and as government chairman of Inner Mongolia will possibly be his younger brother Wu Jie.

#### **Wu Jie's Studies in the Soviet Union and the United States Give Hope for His Entertaining New Concepts**

Wu Jie is this year 55 years of age, which is really the right age for a provincial governor.

Wu Jie was born 1936 in Suiyuan. He went to primary school in Yen'an and to middle school in Guisui/Hohhot.

From the beginning to the middle 1950's, the CPC sent many youths to study in the Soviet Union and in Eastern Europe, and the children of high-ranking cadres were most likely to be sent. Since Wu Jie was the son of Ulanhu, and had also achieved good grades at school, he too was sent to the Soviet Union to study engineering and physics.

At the time of the Cultural Revolution, Ulanhu was declared a "man of the 'capitalist road' party in power," and for this reason Wu Jie was imprisoned for four and one-half year.

In the early years of the 1980's, Wu Jie went to study in the United States at government expense and studied business administration at the University of California, where he displayed a great interest in cybernetics.

Back in Inner Mongolia, Wu Jie, since 1983, had first been deputy mayor of Chifeng City and later mayor of

Baotou City. Baotou is a base of the iron and steel industry, and has also a fairly well developed machine-building industry. If he would have applied to industrial management and city management what he had learned in the United States in the area of enterprise management theories and of new economic ideas, the most relevant would have been the clear delineation of powers and official authorities and also a system of management at different administrative levels.

In 1990, Wu Jie was transferred to become vice governor of Shanxi Province. In that year he published his *On System Dialectics*. This book's title is also the title of an article which he had published in 1988 in the INNER MONGOLIAN SOCIAL SCIENCES journal, and which had attracted the attention of Qian Xuesen [6929 1331 2773], who then enquired who this Wu Jie was. Qian Xuesen is an expert in the field of remote control engineering and had given much support to and had much praised the cybernetics research of Song Jian [1345 0256]. Song Jian is now a member of the CPC Central Committee and chairman of the Science and Technology Commission of the State Council.

Wu Jie's transfer to Taiyuan to be vice governor of Shanxi Province may be a move to make him a "hot prospect" at another place, so that he might quite possibly be slated for deputy secretary of the Inner Mongolian CPC Committee and concurrent government chairmanship.

#### **Cousin Yun Shufen is Vice Chairperson of the Inner Mongolian Political Consultative Conference**

Yun Shufen, who is the cousin of Bu He and Wu Jie, is now 67 years old. She is of the second generation of CPC cadres and presently holds the position of vice chairperson of the Inner Mongolian Political Consultative Conference. Her father Yun Run [0061 3387] is the elder brother of Ulanhu and also a veteran CPC cadre in Mongolia. She had participated in underground work of the CPC in the area of the Tumd Banner and had been a secret communications officer. In 1939 she went to Yen'an and studied at the North Shaanxi public school, at the Minorities Institute, and at the Yen'an University. Later she worked as primary school teacher in the Ih Ju League. After she joined the CPC in 1946, she engaged in political work (see table below).

During the Cultural Revolution, she was linked to the proceedings against Ulanfu and had to stay in the "bull pen" and remain imprisoned for eight long years. She came out in 1973 and was appointed vice director of the Inner Mongolian Bureau of the Electronics Industry. In 1981 she transferred to the position of chairperson of the Inner Mongolian Women's Federation.

#### **Beijing Holds Exhibition on the Glorious Life of Ulanhu, A Statue of Dong Biwu [5516 1801 2976] is Erected on Hongshan Place in Wuchang**

Since 28 July the Minorities Culture Palace in Beijing is holding an exhibition on "The Glorious Life of Comrade

Ulanhu." This is one of the activities in commemoration of the 70th anniversary of "1 July."

A ceremony in which an unveiling of a bronze bust of Ulanhu took place was at the start of the exhibition.

The exhibition is in six parts and extols Ulanhu's contribution to the communist revolution.

**Table 1: Biographical Table of the Late CPC Politburo Member Ulanhu**

Dates of birth, death; place of birth	1906-1988; Tumd Left Banner in Suiyuan
Education	Mongolian-Tibetan School of Beiping, Sun Yat-sen University of Moscow
Joined CPC	1925 in Beijing (original name Yun Ze [0061 3419])
Personal record	1929-1941: Member/secretary of the CPC's West Mongolia Work Committee; deputy chief, Political Dept., the Mongolian Peace Preservation Corps; party secretary, Independent Mongolian Brigade
	1941-1945: Director, Education Department., Yen'an Nationalities Institute; chairman, Minorities Affairs Commission, Government of the Shaanxi-Gansu-Suiyuan Border Region
	1945-1947: Alternate member of the CPC Central Committee (1945-1956); chairman, Suiyuan-Mongolia Government/Secretary of the CPC's Inner Mongolia Work Commission; chairman, United Committee for Inner Mongolian Autonomy, concurrently director of the Military Dept.
	1947-1949: Secretary, Inner Mongolian Affairs Committee of the CPC; chairman of the Autonomous Regional Government; commander and political commissar, Inner Mongolian Military Region
	1949-1966: Chairman, Suiyuan Provincial Government (general, 1955-1965); first secretary, Inner Mongolian CPC Committee; chairman of the Autonomous Region; commander and political commissar, Inner Mongolian Military Region; vice premier, State Council, concurrently chairman of the Nationalities Affairs Commission; alternative member of the CPC Politburo (1956-1966); second secretary, North China Administrative Council of the CPC Central Committee (1961-1966)
	1973-1988: Member, CPC Central Committee (1973-1987); vice chairman, Standing Committee of the NPC (1975-1983, 1988); director, United Front Department, CPC Central Committee (1977-1982); member, CPC Politburo (1977-1987); vice chairman of the PRC (1983-1988)
Family	Yun Shufen, niece, now vice chairperson, Inner Mongolian People's Consultative Conference; Bu He, son, now deputy secretary and chairman of the Inner Mongolian Affairs Committee of the CPC; Wu Jie, second son, now vice governor of Shanxi Province

**Table 2: Biographic Tables of Ulanhu's Son Bu He and Niece Yun Shufen**

Background	Bu He (original name Yun Shuguang, 65 years of age)	Yun Shufen (67 years of age)
Date, place of birth	1926, Tumd Left Banner	1924, Tumd Left Banner
Suiyuan Education	Yen'an Nationalities Institute Joined CPC	North Shaanxi public school, Yen'an Nationalities Institute, University of Yen'an Joined CPC
Joined party	1942 in Yen'an	1946
Personal record	1947-1949: Head, Inner Mongolian Culture Troupe	1946-1949: Primary school teacher at the Ih Ju League, Suiyuan; section chief, political section, Inner Mongolian independent cavalry brigade; chairperson, girl students brigade, the Mongolian Military College of Qiqiha'er
	1949-1981: Party committee secretary and deputy director, Culture Bureau of Inner Mongolia; chairman, Federation of Inner Mongolian Literature and Art Workers; director, Propaganda Department; Inner Mongolian Affairs Committee of the CPC; chairman, Nationalities Affairs Commission of the State Council; first secretary, CPC Committee of Hohhot City, Inner Mongolia; Mayor of Hohhot City, Inner Mongolia	1949-1966: Political assistant and section chief, 10th enlarged division of Mongolian cavalry; secretary, women's CPC committee of the Ih Ju League, Inner Mongolia; chairperson, Women's Federation of the Ih Ju League; secretary-general and vice chairperson, Inner Mongolian Women's Federation; secretary of the party organization of the Inner Mongolian Women's Federation of the CPC
	1982-1991: Member, CPC Politburo*; deputy secretary, Inner Mongolian Affairs Committee of the CPC*, chairman, Inner Mongolian Autonomous Region*	1973-1981: Deputy director and CPC secretary of the Inner Mongolian Bureau of the Electronics Industry; chairperson and CPC secretary of the Inner Mongolian Women's Federation (1981-)*; member, Standing Committee of the Inner Mongolian People's Political Consultative Conference (1985-)*; vice chairperson of the Inner Mongolian People's Political Consultative Conference (1988-)*

Note: \* refers to present position; adjusted 17 July 1991 by the Record Office of this Periodical.

**Editorial on Factors Determining Prosperity**

92CE0079A Taipei CHING-CHI JIH-PAO in Chinese  
1 Oct 91 p 2

[Editorial: "A Discussion of the Future of Our Economy"]

[Text] The state of the economy is an important issue about which everyone is concerned. The assessment recently issued by the Executive Yuan's Council for Economic Planning and Development for August was a green light, the third straight month thereof. While the overall evaluation slipped two points from that of the previous month, it signified that our economy is still expanding. On the other hand, many manufacturers are bearish. These two contrasting viewpoints definitely are perplexing and give one even greater cause for concern.

The economic outlook certainly is cause for concern. For the nation, it augurs economic success or failure and directly affects the morale of administrative departments. For producers and sellers, it signals changes in profitability or opportunity to expand operations. For families, it directly affects income and indirectly influences ability to order finances. Thus everyone naturally is concerned about change in the state of the economy. Nevertheless, our compatriots, no matter what mode of analysis they employ, always use a static approach when assessing economic trends, and more importantly, owing to the fact that we are highly dependent on exports, quickly think of external economic trends, using the latter as a reference for or a comparison to domestic ones.

In fact, future economic trends are always dynamic, and economies, including external ones, change. If one employs constant indices, one will obtain a static picture of the future economy, even if one manipulates the indices dynamically. As for dynamism, the greatest change domestically is the impetus provided by the Six-Year Plan for National Development, the most important component of which is construction of various urban communications facilities. These projects naturally have their objectives and are likely to go on exerting their proper effects after completion. Yet as they are under construction, whether the digging of tunnels or the laying of roadbeds, pipes, and cables, they will create much inconvenience and increase social cost, which will dampen economic growth and cause some firms to feel a competitive threat from rising costs and thus to perceive their economic future as anything but rosy. Especially important is the fact that demand for all sorts of social welfare has been rising due to income improvement in recent years. Therefore, social struggles have erupted repeatedly, fostering the impression that society is in turmoil, thereby heightening the feeling that economic prospects are poor. Many countries have experienced and responded to this situation, with definite results, some successful, some not.

Whether communication construction or demand and struggle for social welfare, this dynamism usually is

dubbed "development driven by domestic demand." Over the past three decades, rapid expansion of exports has served as an important engine of our economic growth yet has also produced much headache. From less than 10 percent during the 1950s, the ratio of exports to gross domestic product steadily rose in each intervening decade, to more than 50 percent during the 1980s, the highest annual figure reaching 58. This heavy dependence on exports has fostered the impression that growth is impossible without exports, given exporters much social clout, and caused government economic policy to emphasize exporters' interest. Nevertheless, many people overlook the fact that exports have declined relative to gross domestic product since 1989, slipping to 47.7 percent thereof in 1990, and that the most important reason for this is that domestic demand is growing. This is closely related to the construction and social unrest that we have been so concerned about the past few years. No matter how one chooses to evaluate it, this development shows that we have extricated ourselves from the trend toward export dependence.

Domestic demand is but a vague and general term and in fact refers to structural change in domestic production. This change sometimes is sweepingly termed "service industry revolution," which immediately conjures up the specter of "the hollowing out of industry." In fact, modern service industry differs greatly from the notion most people entertain. Many important service industries are capital-intensive, and from planning, to completion, to operation, are consistently and inseparably linked with manufacturing. Thus the development of service industry is a chronological extension of manufacturing, and the notion "hollowing out" is misguided. In other words, it is natural and hard not, from a static perspective of the dynamic restructuring of production that our country is undertaking, to mistakenly conclude that economic prospects are less than rosy. Even so, it is especially important that we remind ourselves that this domestic demand-led development is multisectoral, that the development of each sector contributes differently to economic growth, that an economy of our size cannot develop across the board at the same time, that we must make choices at each stage, and that these choices will affect our normal economic growth rate in the future. Thus the real issue relating to economic trends after three straight months of green lights is which sectors we should select for development.

**Editorial Urges Government To Aggressively Apply to GATT**

92CE0079B Taipei CHING-CHI JIH-PAO in Chinese  
28 Sep 91 p 2

[Editorial: "We Must Aggressively Strive To Join GATT Before or Simultaneously With the Chinese Communists"]

[Text] Since last July, when U.S. President Bush openly supported the accession of our country to the General Agreement on Tariffs and Trade [GATT], the American

government has made concrete moves and issued written directives to its embassies and consulates to enjoin their host countries to support Taiwan's accession to GATT. Assistant U.S. Trade Representative Kristoff predicts that there will be important developments in the next three to four months. Additionally, Vice Minister of Foreign Affairs Fang Chin-yen [2075 6855 3508] stated upon his recent return from Europe that he believes European countries and the EC in principle endorse, and more importantly, because they are pleased with the recent improvements in our economic and trade system, support our accession to GATT. Just as our compatriots had become elated with the hope that our nation might gain entry to GATT, however, Wu Chien-min [0702 1696 3046], spokesman for the Chinese Communists' "ministry of foreign affairs" indirectly indicated in a speech Thursday that the Chinese Communists will continue to block our entry to GATT before theirs, asserting that Taiwan is part of China and as such her accession to GATT can be resolved only through consultations after "China" has been admitted. The Chinese Communists' program to thwart our participation in international organizations has not changed one whit. We absolutely cannot accept this move. For if they beat us into GATT, two major factors inimical to our entry will arise.

First, according to GATT regulations, other than the original signatories, countries wishing to join the organization may do so in accordance with Articles 26 or 33 thereof. Article 26 applies to newly independent nations that had been colonies of the signatories, which nations may gain accession through the stated approval of their metropoles. This is precisely what the Chinese Communists have repeatedly insisted upon—that they would assist our entry after they are admitted and we are established as a dependent region of theirs, reducing us to the status of a local government. This we naturally cannot accept.

Second, the procedure for applying to GATT under Article 33 is as follows. One must first submit a letter of application and a memorandum on one's foreign trade system to the organization's Secretariat. If the application is accepted by consensus vote of the GATT Council, interested members of the organization may form a "working party" to review the aforementioned memorandum, negotiate with the applicant, and decide whether or not to recommend the applicant for approval by the "general membership." Furthermore, the applicant must conduct bilateral negotiations with each member to effect tariff reductions and concessions and other nontariff measures. If two-thirds or more of the "general membership" approves the Council's "draft protocol of accession" and completes negotiations with the applicant, the latter may sign a "protocol of accession" with the "general membership" and formally enter GATT. Thus to join GATT via Article 33, one must surmount three hurdles. If the Chinese Communists enter first and if we do not accept admission via Article 26, they are bound to participate in the working party.

Even if they do not obstruct us, will our officials agree to negotiate directly with them? Still worse, with their large population and international clout, it is by no means unlikely that the Chinese Communists will join the GATT Council upon accession. If that should happen, it would be impossible for us to gain admission through consensus vote of the Council and we would have no choice but to apply via Article 26.

Therefore, we suggest that relevant government agencies strive and that the forces of private enterprise be mobilized to take advantage of this climate, in which other countries praise our efforts aggressively to liberalize and attach great importance to our Six-Year Plan for National Development, which will cost a total of \$300 billion, and to launch a full-scale lobbying offensive to induce GATT members to support our accession before, or at a minimum simultaneously with, that of the Chinese Communists. The Executive Yuan should rank this task as the most important and urgent of this year. For it will be much more difficult to join GATT if we miss this opportunity.

While we vigorously support the effort to join GATT, there are disadvantages and problems that will arise from accession that we cannot ignore.

The disadvantages have been greatly reduced due to the government's aggressive implementation of liberalization. Nevertheless, the multilateral talks that have been going on in the Uruguay Round over the last five years were supposed to have been completed by the end of last year yet nearly broke down due to deadlock between the United States and the EC over agricultural subsidies, were finally extended for a year, resumed last February, and are slated for conclusion by the end of this year. This demonstrates that countries still retain much hope that GATT mechanisms and functions can be perfected. Furthermore, EC Chief Trade Negotiator Peiman [0160 2581] indicated on Wednesday that the EC has decided to resolve the farm-subsidy issue within the next month and to achieve an agreement in principle at the Uruguay Round by the end of this year. Once these talks are concluded, service industry, agriculture, and intellectual property-right protection will be incorporated into GATT rules. However, liberalization of our service industries and agriculture has just begun. Once we join GATT, we will have to treat these sectors in accordance with GATT rules and to complete preparations to readjust and adapt the sectors as soon as possible so as to minimize shock thereto.

As for the problems that will arise from GATT membership, whether or not the Chinese Communists join with us or later, there cannot, in accordance with the most fundamental spirit set forth by GATT, be discrimination against other members. However, our Program for National Reunification remains in its initial stages, so we must continue to limit trade with the Chinese Communists to indirect trade. We must be attentive to the contradictions inherent in this situation so as to avoid recrimination from other members once we join GATT.

**Editorial Analyzes Causes of High Prices**

92CE0079C Taipei CHING-CHI JIH-PAO in Chinese  
2 Oct 91 p 2

[Editorial: "Domestic Price Issues Warrant Attention"]

[Text] Since the oil crisis, all quarters of our country have been very concerned, indeed, extremely sensitive, about inflation. The reason why the Central Bank has continuously maintained high interest rates and a contractionary policy is that it has consistently feared that reduction in interest rates would fuel inflation. In fact, however, what warrants attention in our country is not inflation but the generally high level of prices.

According to a survey by the Executive Yuan's Directorate General of Budget, Accounting, and Statistics, visitors to Taiwan last year were satisfied with the facilities and service of our hotels, but were least satisfied with our prices, and have reduced their per capita and per diem expenditure by 30 percent due to high prices. Indeed, not only do tourists find our prices high, those most conscious of the problem are our own compatriots who have traveled abroad. People who have not compared our prices with foreign ones cannot really sense the problem. Yet no one who has gone abroad, whether to Europe, the United States, Southeast Asia, New Zealand-Australia, or Africa, cannot help but be shocked by some of our prices or envy the cheapness of some goods abroad. Imports naturally notwithstanding, even domestically produced goods that are in abundant supply are more expensive here than abroad. For example, in the United States, with which our compatriots are most familiar, the vast majority of comparable goods are cheaper than in Taiwan. First of all, housing there is cheaper than in Taiwan. In the suburbs of New York, Los Angeles, Chicago, and other large cities, \$2-300,000 will fetch a free-standing house with a front and back lawn and garden, whereas a similar sum will buy only a 30 p'ing [180 sq ft] apartment here. In the American Midwest, \$100,000 will fetch a five room house, with yard space similar to that described above and a garage. How can our visitors to the United States not be envious? As to most food, retail prices at supermarkets there often are 20, 30, or even 50 percent cheaper than here for the same produce. Whether Chinese or Western, a small meal for four-five persons involving five-six dishes, including meat and seafood, runs only \$50-60 there, whereas similar fare here probably would run NT \$3,000 or more. The same goes for clothing and daily necessities. Except for a few regions, prices in Europe, too, are cheaper than here. No wonder compatriots transform their overseas tours into shopping expeditions, towing large and small bags of purchases upon their return.

Analysis reveals that our high prices are not limited to imports. Locally produced goods that are in abundant supply are equally expensive. We are renown as a leading producer of textiles, so our off-the-rack clothing, for example, ought to be cheap and superb, yet most is much

more expensive than that sold abroad. Bananas, watermelons, pomelos, and muskmelons, too, all are produced locally and are not dear, yet the prices our consumers pay for them are unreasonably high. We find it unreasonable that a small, one and one-half chin pomelo could fetch more than NT \$150. Our compatriots always are amazed at the variety and generally low cost of the fruit they encounter when traveling abroad. It must be borne in mind that the Taiwan area is also known as a leading fruit producer.

As to why domestic prices are so high, leading officials of the Ministry of Economic Affairs' Commodity Price Supervisory Board say that many factors affect prices, including foreign exchange rates, resource endowment, income levels, and consumption habits, and believe that the high value of the new Taiwan dollar is an especially important cause of our high prices. This explanation seems to miss the mark. The board's comparison of world prices reveals that a short-sleeve, cotton Pierre Cardin sport shirt sells for NT \$2,000 in Taipei but for only NT \$7-800 in Kuala Lumpur and Bangkok. Even though the NT dollar is highly valued, that would not cause this great of a price discrepancy. If one argues that some of that discrepancy includes tariffs, our duties, in fact, were slashed long ago. As for resource endowment, except for a very small number of goods, most products, so long as they are valuable trade commodities, do not vary too greatly in price from country to country. As to income levels, we at best are a middle-income country, so there is even less justification for our high prices.

We believe the following are the major reasons behind our high prices.

First, our population-land ratio is too high, causing land to be dear and land prices to rise unreasonably. On top of that, speculation, a man-made phenomenon, has caused urban land prices, especially, to skyrocket. Taipei probably is second only to Tokyo in this regard. Exorbitant land prices render housing prices unreasonable. Yet this is not the only reason.

Second, entrepreneurs take too big of a cut. To earn profits, entrepreneurs must add return on top of costs, but entrepreneurs in every sector of our country overly pad profits. Domestic cosmetic prices, for example, are three to five, even 10, times higher than those abroad. Such exorbitant prices cannot be explained by exchange rates, tariffs, and the like. The only explanation is that entrepreneurs take too big of a cut. This, in turn, is related to the agency system, which enables firms enjoying exclusive marketing rights happily to gouge big or super profits. No wonder people traveling abroad insist on buying large quantities of cosmetics. The same goes for domestic retail prices for fruit, vegetables, and other foods. Local producers garner very little, while retail prices are several times higher than producer prices. Middleman clearly are taking too big a cut and are engaging in exploitation.

Third, consumers mistakenly believe that high prices mean high quality. There is no denying the fact that many of our consumers still do not carefully judge product quality and often take high prices for good quality. Seizing upon this mentality, entrepreneurs happily raise prices and rake in profit. Yet the hapless, fleeced consumer still smugly thinks he got the deal.

Fourth, we lack organizations to defend consumers' rights. While there are many consumer protection groups, they have not played much of a role in protecting consumers by investigating prices. The Consumers' Cultural and Educational Foundation has accomplished many things but seemingly needs to make greater effort in this area.

High domestic prices not only scare off foreign visitors but also undermine consumers' rights and impede improvement in domestic welfare. To make domestic prices more reasonable, we hope that responsible government agencies, such as the Commodity Price Supervisory Board, will regularly report comparisons of world prices; that consumer protection groups will survey and publish domestic price structures so that consumers are informed; and that the broad masses of consumers will abandon the mentality of judging quality by price, wake up, and avoid getting cheated price-wise. Naturally and most importantly, we hope that the economy will open up and liberalize even more so that producers and sellers cannot exercise monopoly.

#### **Realignment in Legislative Yuan Anticipated**

*92CM0069B Taipei TZULI WANPAO in Chinese  
9 Oct 91 p 2*

[Article by Wu Dian-jung (0702 0368 1369]): "The Covert Factional Realignment in the Legislative Yuan"]

[Text] Collaboration between the Legislative Yuan's collective wisdom coalition and the 100 Action Alliance has caught the attention of many in the political arena. In fact many factions in the Legislative Yuan have quietly been working to realign themselves in anticipation of the veteran committee members' retirement. In this realignment process, forces that are behind President Li or those who support Minister Hau [of the Legislative Yuan] will become the main axis. Whether the future Legislative Yuan will be dominated by the three main forces of the collective wisdom coalition, which supports President Li; the new KMT [Kuomintang] coalition and the society to reform the National Assembly's functions, which support Minister Hau; and the Progressive Democratic Party [PDP] will be an interesting development to watch.

In anticipation of the veteran committee members' retirement, various factions in the Legislative Council have begun to prepare themselves. Collective Wisdom Coalition's registration as a political group and its frequent collaboration with members of the opposition, the formation of the Society To Promote Reform in the National Assembly, and National Construction

Research Association active recruitment of new members and its naming Wang Ling-lin [3769 0109 7792] vice president—these are actions taken by various secondary groups in the Legislative Yuan to expand their respective territory and consolidate their power in anticipation of the veteran committee members' retirement.

Generally speaking, the non-PDP legislative committee members in the Legislative Yuan can be separated roughly into three camps: Collective Wisdom Coalition members who support President Li; the new KMT coalition which backs Minister Hau, and legislative committee members of the military clique. The National Construction Research Association and other secondary groups take their orders from the party Central Committee but have not taken a clear stand on their support for either President Li or Minister Hau. Yet declaring support for either President Li or Minister Hau is a critical point in this round of factional realignment, and especially because of the unstable relationship between Li and Hau, it may become an even more important factor in the future realignment of the Legislative Yuan.

In the realignment of these secondary groups, because Collective Wisdom Coalition is the most established and because of its mainstream status within the party, it will be a relatively stable secondary faction. On the question of whether it can win 50 seats as some have predicted, one Collective Wisdom Coalition member said that he saw little problem with approximately 30 seats. As for the Legislative Yuan after the veteran committee members' retirement, Collective Wisdom Coalition generally has ample confidence in itself, but its past collaborations with the PDP have earned the disapproval of other factions which have accused it of "taking credit for someone else's achievements." At this point in time, Collective Wisdom Coalition is also worried about retaliations from non Collective Wisdom Coalition members who may unite against it. Therefore, in this round of realignment it has been very careful in words and deeds in order to consolidate its power.

Those most affected by the veteran committee members' retirement may be those legislative committee members with military ties and the more right-wing members of the Legislative Yuan. Without the old members who have acted as a stabilizing force, it is not clear if Minister Hau or the military will be as successful in getting their policies through the Legislative Yuan in the future. To preserve their power, the military clique and the new KMT coalition legislative committee members have plunged into reorganization work. Many believe that the formation of the society to promote reform in the national assembly is a move of those legislative committee members who are backers of Minister Hau in order to shore up their power.

The National Construction Research Association on the other hand was created by Lin Tung-ti [2651 2767 2251], chairman of the ruling party's Central Policy Coordination Committee. Even Shen Shih-hsiung [3088 0013 7160], a central figure in National Construction

Research Association, has admitted that Lin's resignation had a major impact on the group's strength. That is why it is vigorously recruiting members of the Collective Wisdom Coalition and other factions today.

During the factional realignment in the Legislative Yuan, the PDP's 20 or so legislative committee members will play a fairly crucial role. Although it is a minority party, it is a strong galvanizing and fighting force. Any faction that manages to get the PDP's support, or at least is not facing strong PDP opposition, on an issue will find itself in a good position. In this respect, Collective Wisdom Coalition past collaboration with the PDP will give it an edge, and their recent collaboration over the 100 Penal Codes has shaped the first step of formal cooperation between Collective Wisdom Coalition and the PDP, and the future development of their relationship is something many people will pay close attention to.

On the other hand, legislative committee members with military ties and the new KMT coalition have also noticed this trend and have stepped up their own reorganizational and cooperative efforts.

### Political Ad Criticized

92CM0069C *Taipei TZULI WANPAO* in Chinese  
17 Oct 91 p 9

[Article by Pai Li-li (4104 7787 7787) reporting from Taipei: "Anti-Taiwanese-Independence Ad Turns Out To Be Doctored—National Association of Pharmacists Maintains That Original Document's Intent Is To Support the Government and Social Stability"]

[Text] The nation's more than 300 civilian organizations took out a huge ad in every major newspaper yesterday to voice opposition to "Taiwanese independence" and "a new constitution." The association of pharmacists which was one of the sponsors of the ad indicated that it had received a letter from the ROC [Republic of China] veterans association urging it to jointly sponsor an ad, at no expense to the association, to show support for the government and social stability. The association cried foul when it learned that the actual ad bore no resemblance to the original intent.

The content of yesterday's "our response and support" ad took out by the more than 300 civilian groups was decidedly anti—"Taiwanese independence" and anti—"constitutional limitation." They expressed strong opposition to the abolition or the drastic amendment of 100 Penal Codes and was resolute in its opposition to violence. It also denounced the Progressive Democratic Party for making "Taiwanese independence" its platform.

Chang Hung [1728 1738], director of the National Association of Pharmacists, pointed out that he was deeply shocked by the ad he saw in yesterday's newspaper. He said that the association had received an official letter from the ROC veteran's association about a week ago

stating that if it was willing to voice support for the government and for social stability, it should so indicate in its reply and join in the promotion of this worthy cause, and it also stated that the ad would not cost the association anything. At the time, Zhang thought that there was nothing wrong in showing support for the government and for social stability, and he responded positively. Little did he know that the ad would turn out to be so radical. He felt cheated.

Chang Hung said that since yesterday's ad came out, he had received phone calls from members all over Taiwan who chastised him and questioned the association for taking out such an "inflammatory" ad which ran counter to the association's stance. Zhang felt that he had been wrongly accused, that he had been misled from the start.

Chang Hung also said that he had received another official letter, this time from the Love for the Homeland and the Country Committee, saying that a demonstration had been planned on Restoration Day to show support for social stability. It urged the association to take part and show support, either financially or physically. Having been taken in once, Chang said that he planned to ignore the letter to avoid being taken in again.

### Social Activist 'Mr. Yamada' Profiled

92CM0068A *Taipei TZULI WANPAO* in Chinese  
6 Oct 91 p 2

[Article by Lin Feng-fei (2651 7685 7378); "Lin Shan-t'ien Uses the Law To Open Mountains and Paves Way for Human Rights"]

[Excerpt] [passage omitted] He is not a political star. Inside the classroom his presence sparks fear as well as respect. His teaching style is very strict, and his scholarship is widely respected. Yet outside the classroom he mingles with students, drinks beer with them, and is nicknamed "Mr. Yamada." He is professor of penal law at the National Taiwan University, as well as adviser to the One Hundred Action Alliance.

Reaching the climax of political debate, Lin Shan-t'ien [2651 1472 3944] loudly appealed for abolition of the 100 Penal Codes. He even took to the street; these actions were not incidental. As early as 1981, Lin had suggested detailed plans to abolish the 100 Penal Codes in a session on penal law during a conference of the Association of Comparative Legal Studies. Such respect for rule by law and human rights can be traced back to Lin's legendary past - his career in the police force.

A native of Tainan, Lin Shan-t'ien was among the first graduates of a four-year Police Academy. He was assigned to the Kaohsiung police bureau upon graduation. He stated that due to first-hand observation in law enforcement during his three years of service in the police force he was strongly hit by the fact that at the grass-roots level the spirit of law and human rights were not always carried out thoroughly. Therefore, he made up his mind to educate himself further in the field. His

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service in the police force gave him unique first-hand experience that other legal scholars did not have. As a policeman determined to advance himself in the field of legal studies, Lin is not the "feeble scholar" type who buries himself in books. In 1961 he won the national associated college sports Judo title. He also served as a training officer in the Underwater Explosive Division of the Marine Corps Training Academy. A souvenir flag from the Explosive Division is still on the wall of his office today.

In 1966 after completing his German language study at a church school after work, Lin Shan-t'ien began his study at Folaipao [0154 5490 1027] University in Switzerland. One year later he transferred to Tupinken [2629 6333 2704] University in Germany, and in 1971 he was awarded a doctoral degree. Upon returning to Taiwan he taught at his Alma Mater - Police Academy as visiting assistant professor. Due to conceptual differences with the academy on the issues of rule by law and human rights, Lin left the academy and took a teaching position at Fugen University. During this period Lin also started to publish a series of newspaper articles on the issues of rule by law and human rights outside of his legal research and studies. At the same time, his books on general and specific topics of penal law, treatise on penal proceedings, criminology, economic crime and economic penal sanction won him a solid position in the field of penal law. His long time participation in the Chinese Association of Comparative Legal Studies and his two-time appointment as the chairman of board of the Association of Comparative Legal Studies in 1989 and 1990 also gave him more capacity in the forum of liberal reformers in the Taiwan legal field.

In 1981 Lin came to teach at the National Chengchih University. During his 10 years at Chengchih University he devoted more emotional as well as intellectual energy than he ever had in any other period of his entire teaching career. His strict teaching and earnest attitude sparked fear in the classroom among the fearless youth under 20. When students murmured to each other in class, he would seriously say to them: "Raise your hand, discuss your question with the class, or you can leave the classroom." However, after a year or two, his students gradually came to understand his "strict outside but actually warm" style. The turning point of this teacher-student relationship was best captured by "beer gatherings" in which seniors were moved by their teacher's Tupinken style toast. Over time, out of respect as well as humor, the students nicknamed him "Mr. Yamada," a Japanese name derived from the transliteration of his name "Shan-t'ien."

At Chengchih University Lin held a joint appointment as the department chair and the director of the Institute of Legal Studies. But eventually he sadly left Chengchih University for National Taiwan University. Lin refused to comment on the reasons of his leaving. Although his feelings for the personal, business, and the school during this period may have contributed to his decision, outside opinions often speculated that his leaving was related to his political opinions and active participation in social movements.

During the Martial Law period, Lin actively participated in community affairs as the chair of department of penal law at Chengchih University, whose predecessor was the "Central Party School." Under a variety of circumstances he openly expressed his concern for the issues of rule by law and human rights without hesitation. He even used his position as the department chair to take "special care" of the student movement organization "Yehhuo [6851 3499]." During the student movement in March 1990, he was one of very few professors who participated in student sit-ins in front of the Chung-cheng Memorial despite knowledge of his bladder cancer, and kept silent about his illness. During summer vacation a few months later, he quietly left Chengchih University for his appointment at National Taiwan University. During the 20 May rail station sit-ins, he gave a speech at the station to petition the release of the four people arrested in the Taiwan Independence Committee case, and called for the abolition of anti-rebellion penal codes as well as 100 Penal Codes. He explained in details the legal theories and materialized the concept of "people's university," an ideal of the students and professors at the station. His participation in the 20 May student movement pushed him to the highlight of political debate -the abolition of 100 Penal Codes.

The 8 September demonstration did not get a concrete response from the party in power. As the resolution at the end of the demonstration was to mock the 10 October military parade with "territory, territory, territory," and a potential conflict between the 100 Penal Codes revisionist force and political forces against the October military parade seems unavoidable. The One Hundred Action Alliance was formed on 21 September, and Lin Shan-t'ien became its advisor. Lin used his expertise in penal law to fight many consequent political battles, and brought "distinctive" characteristics to the movement among the masses. His refusal to participate in the debate on the Huashih TV nor the "Administrative Yuan Penal Codes 100 Revision Committee" made him a more controversial figure. [passage omitted]

### Changing Political Culture of Hong Kong Chinese

92CM0034A Hong Kong KUANG CHIAO CHING

[WIDE ANGLE] in Chinese No 228, 16 Sep 91

pp 50-62

[Article by Dr. Lau Siu-kai (0491 0340 0163), lecturer/professor, Sociology Department, and deputy director, Hong Kong Institute of Asia-Pacific Studies, the Chinese University of Hong Kong; "Politics Without a Social Basis: Attitude of Hong Kong Chinese Toward Political Leadership"]

[Excerpts] [passage omitted] The focus of this study is the attitude of the Chinese people of Hong Kong toward all component parts of the political leadership structure of Hong Kong. These component parts include the main political systems, figures, and groups. In this study we found that although the Chinese people of Hong Kong can dimly perceive the political contradictions between these component parts of the political leadership, they cannot relate them to the current outstanding socioeconomic problems in Hong Kong. Therefore, they do not feel that there is any connection between the political contradictions and the socioeconomic contradictions. The result is that when they use political criteria to differentiate the leadership's component parts, although doing so with a little difficulty, they can still differentiate them to a limited extent, but they have almost no ability to use socioeconomic criteria to differentiate them. Obviously, this situation is unfavorable for engendering public trust in political leaders and groups and is also unfavorable for their emergence.

The main findings of this study come from a survey in the form of a questionnaire put to a sample of all the Hong Kong people. The survey was conducted in the summer and winter of 1990; 390 persons were interviewed and the response rate was 63.6 percent.

Although in recent years there has appeared in Hong Kong a large number of political leaders who profess to represent the popular will, the Hong Kong Chinese, in light of past difficulties, found among them those they thought worthy of trust. When in our survey we asked the interviewees whether in their minds there were political leaders worthy of their trust, 69 percent of them replied "no" and only nine percent "yes." If these findings are compared with those of a similar survey I conducted in 1988 (the respective figures were 69.9 and 16.2 percent), the Hong Kong Chinese seem now to be more mistrustful of their leaders.

When further questioning the 37 interviewees who answered "yes" as to whom were the leaders they trusted, five of them could not say while 32 could provide the names of such leaders. [passage omitted] Generally speaking, in the minds of Hong Kong Chinese there is a lack of leaders worthy of their trust. What is important is that, in the list of names obtained from the interviewees, one does not see leaders with a political orientation, while leaders with other orientations are the ones whom the people trust.

The situation with regard to local leaders is roughly the same as that of the leaders of Hong Kong as a whole. When asked if there were local leaders worthy of their trust in their areas of residence, 60 percent of the interviewees replied "no," 7.9 percent replied "yes," and 32.1 percent could not say. As is the case with the leaders of Hong Kong as a whole, when compared with the results of the 1988 survey the public's degree of trust in the local leaders has dropped.

The interviewees were asked whether in their minds there were some political groups worthy of their trust (this question was not in the 1988 survey). As expected, the results were about the same as those of the above-mentioned questions concerning the leaders of Hong Kong as a whole and the local leaders: 62.1 percent replied "no," and only 7.2 percent thought that there were such groups. However, only 17 persons could name the groups they trusted. [passage omitted] Generally speaking, Hong Kong's political groups obtained only negligible trust. Moreover, most of this limited trust was given to those groups that oppose the Chinese government and promote Hong Kong's democratization.

Although in the minds of Hong Kong Chinese there are almost no political leaders and political groups worthy of their trust, that does not mean that they are estranged from Hong Kong's political system. Of the interviewees 58 percent agreed with the following formulation: "Although Hong Kong's political system is not perfect, it has already become the best it can be under Hong Kong's actual circumstances." Although the Hong Kong people's trust in the Hong Kong government has continued to drop, in my survey 42.9 percent of the interviewees expressed support for the government while only 15.1 percent did not trust it. Generally speaking, the Hong Kong government's work obtained a quite positive evaluation, with only 15.1 percent of the interviewees criticizing it as bad or very bad. However, there is a general trend for the public's evaluation of the Hong Kong government's work to become lower and lower.

Besides Hong Kong's government and political groups, other systems and groups that exercise to different degrees the function of political leadership are likewise accepted by the Hong Kong people to a certain extent. There are several types of these systems and groups. The first type includes those that are closely related to the Hong Kong government and that are inseparable component parts of the political system. The Hong Kong governor, government employees, Legislative Council [Legco], appointed members of the Legco, group-elected members of the Legco, members of the Legco selected by functional bodies, district members of the Legco, and advisory committees appointed by the Hong Kong government. The second type is the political forces outside the government, including pressure groups, leaders of democratic movements, industrial and commercial leaders, trade union leaders, scholars, and specialists. The third type is the systems and organizations that have ties to the Chinese government. They include the two

groups organized by the Chinese government to take part in the drafting of the Basic Law (the Basic Law Drafting Committee and the Basic Law Consultative Committee), the Chinese government's representative in Hong Kong

(the Hong Kong bureau of the XINHUA News Agency), and pro-China leftist bodies. Table 1 shows the degree of trust that Hong Kong Chinese have in these systems and groups.

**Table 1. Public Trust in Political System (figures are percentages)**

		Not Trust	Trust	Not Know/No Opinion	No Answer
1.	Hong Kong governor	11.8	72.8	13.8	1.5
2.	Hong Kong government employees	24.9	57.8	20.3	3.1
3.	Legislative Council	15.4	58.4	23.1	3.1
4.	appointed members of Legislative Council	22.8	45.4	28.7	3.1
5.	members of Legislative Council directly elected or elected by groups	16.7	47.7	33.3	2.3
6.	members of Legislative Council elected by functional bodies	14.9	48.5	34.4	2.3
7.	district members	21.5	53.0	22.6	2.8
8.	advisory committees appointed by Hong Kong government	20.0	42.4	34.9	2.8
9.	Basic Law Drafting Committee	32.3	33.1	32.3	2.3
10.	Basic Law Consultative Committee	30.2	33.5	33.7	2.6
11.	leaders of democratic movements	29.4	37.4	29.2	3.8
12.	pressure groups	30.3	34.8	32.8	2.1
13.	leftist bodies	53.3	12.6	32.1	2.1
14.	Hong Kong bureau of XINHUA News Agency	53.8	17.4	26.4	2.3
15.	industrial and commercial leaders	32.3	33.8	31.3	2.6
16.	scholars	11.1	61.6	25.6	1.8
17.	specialists	12.9	62.3	22.8	2.1
18.	trade union leaders	27.4	37.2	32.8	2.6

In Table 1 there are several findings that are particularly worthy of attention. First of all, the systems and groups that are directly connected to the Hong Kong government—especially the governor of Hong Kong—obtained the highest degree of trust. Second, in the degree of public trust obtained, there is not much difference between systems and groups that are elected and those that are not elected. This phenomenon shows that elections, which are the source of political legitimacy, do not occupy the dominant position. Third, except for scholars and specialists, the nongovernmental systems and groups received only partial support from the people. The larger proportion of interviewees replied "not know," "no opinion," or "no answer," showing that they could not determine how much trust they had in these systems and groups. Fourth, neither the Hong Kong bureau of XINHUA News Agency nor the leftist bodies are trusted by the Hong Kong Chinese, showing that they still dislike the Chinese government. On the other hand, the two committees concerned with the drafting of the Basic Law obtained fairly good public support. This shows that the Basic Law, which was finally promulgated, is, generally speaking, accepted by the Hong Kong people. Finally, the public trust obtained by the

"organic" systems and groups was higher than that of the organizations generally called "opposition factions" (pressure groups and leaders of democratic movements). Therefore, we can say that Hong Kong's present governing structure is still not seriously threatened by its challengers.

We now inquire into the public's attitude toward political leaders and political groups. Generally speaking, Hong Kong Chinese tend to think that the motive of politicians and political groups for taking part in politics is "to benefit others," i.e., to serve other people, and only 16.9 percent of the interviewees felt that the main motive is private interest. Of the interviewees 68 percent thought that the motive is to serve society or to serve in equal measure society and private interest. This quite positive evaluation of politicians is also fully reflected in another finding: Although in the minds of many of the interviewees there were no leaders worthy of their trust, 27.8 percent of them still thought that in Hong Kong there will appear before 1997 some political leaders whom they will trust; 30.8 percent of them said that such political leaders would not appear; and as many as 43.1 percent replied "not know."

Table 2. Public Agreement With Opinions of Political Leaders (figures are percentages)

		Not Agree(D)	Agree(A)	Not Know Political Leader	Not Know Political Leader's Opinions	No Answer	A divided by D
1.	Teng Lien-ju [6772 6647 1172]	4.6	63.1	5.4	15.4	11.5	13.7
2.	Li P'eng-fei [2621 7720 7378]	12.3	51.5	6.4	16.4	13.3	4.2
3.	T'an Hui-chu [6223 1920 3796]	23.3	45.9	5.6	14.4	10.8	2.0
4.	Li Chu-ming [2621 2691 6900]	13.9	58.0	5.9	10.3	12.1	4.2
5.	Lo Te-ch'eng [5012 1795 0015]	15.4	12.8	45.4	18.2	8.2	0.8
6.	Liao Yao-chu [1675 3852 3796]	31.1	18.0	29.0	14.9	7.2	0.6
7.	Lo K'ang-jui [5012 1660 3843]	16.9	20.2	37.9	16.7	8.2	1.2
8.	Ssu T'u-hua [0674 1778 5478]	25.2	46.2	7.2	11.3	10.3	1.8
9.	Chung Shih-yuan [6988 1102 0337]	13.6	45.6	13.6	18.2	9.2	3.2
10.	Yeh Hsi-en [5509 6932 1869]	3.8	56.4	13.1	17.7	9.0	14.8
11.	Chung I-chieh [6988 6654 0267]	6.7	46.6	13.8	21.3	11.5	7.0
12.	Liu Ch'ien-shih [0491 0578 4258]	15.4	34.3	16.4	20.3	13.6	2.2
13.	Ho Shih-chu [0149 0013 2691]	18.0	30.8	17.2	20.5	13.6	1.7

Table 2 shows the degree to which the interviewees agree with the opinions of political leaders. The leaders whom we selected come from different social backgrounds, and they represent the main political trends in today's Hong Kong. Sir Teng Lien-ju, Li P'eng-fei, and T'an Hui-chu (appointed members of the Executive Council [Exco] and Legco), Lo K'ang-jui (a politically active figure in industrial and commercial circles), Sir Chung Shih-yuan (former appointed member of the Administrative Council and Legco), and Sir Chung I-chieh (retired high-ranking government official and once acting governor of Hong Kong) are full-fledged political figures of the "establishment faction." Li Chu-ming and Ssu T'u-hua are typical "anti-establishment" democratic activists, and they are not welcomed by the Hong Kong and Chinese governments. Lo Te-ch'eng was once a staunch political figure of the "establishment faction." Because he was highly dissatisfied with the way that the British government was handling the issue of Hong Kong's political future, he suddenly changed identity and became a prominent "pro-China" political figure. By contrast, Liao Yao-chu is a pro-China patriot opposed to colonial rule. Unlike the others, Ms. Yeh Hsi-en's image as an advocate of the people is bright, and she poses as the defender of the rights and interests of the little people. Liu Ch'ien-shih advertises himself as a trade union movement leader full of fighting spirit.

Finally, in the interview period Ho Shih-chu's image was that of a moderately "pro-China" figure in industrial and commercial circles.

It can be seen from Table 2 that, except for the opinions of Lo Te-ch'eng and Liao Yao-chu, the opinions of the other political leaders are generally accepted. It could be that because the "pro-China" image of Lo and Liao is too strong people do not agree with their opinions. Just as in the past, when we examined the ratio between the percentage of people who agreed with the political leaders and the percentage who disagreed, it was obvious that the degree of the public's agreement with "establishment faction" leaders was higher than that with the other leaders. The only exception was Ms. Yeh Hsi-en. For a long time the work she has done out of concern for the happiness of the masses in the lower class strata has given her a very high reputation in the minds of the Hong Kong Chinese.

In the survey we also selected a number of representative political groups, and asked the interviewees whether they agreed with the opinions of these groups. Table 3 is the result of the answers that came back. The great majority of these political groups were established after the 1997 issue cropped up, and therefore can be regarded as a derivative of this major historical event. Many of them arose when there was an expansion of political space

caused by a certain amount of democratization in Hong Kong. On one hand, they stirred up in the masses feelings of opposition to the Chinese government; on the other hand, to establish and consolidate their own positions, they influenced the Hong Kong people to be dissatisfied with the way that the Hong Kong and British governments were handling the issue of Hong Kong's future. Naturally, most of these groups have a certain "anti-establishment" tinge. However, in this regard the so-called "establishment" actually presents a singular appearance as it is jointly formed by the Chinese, British, and Hong Kong governments. Of the political groups listed in Table 3, the Hong Kong Alliance in Support of the Patriotic Democratic Movement in China (Support Alliance), the Association to Promote Democracy, the Meeting Point, the Hong Kong Affairs Society, the Hong Kong Association for Democracy and People's Livelihood, the Hong Kong United Democratic Alliance, and the April 5th actions can be put in the anti-establishment category. Of them, the opposition to the Chinese government by the Support Alliance and (April 5th action) is the most fierce. The Reform Association [7245 2450 2585], the Citizens Association [0361 3046 0588 2585], the Association to Promote Democracy, the Association to Build Hong Kong and the Hong Kong Fund can be roughly defined as citizen groups that have an elite tinge but that propose a moderate reform of the political system. Conversely, the political orientation of the New Hong Kong League [2450 7449 3263 5114 4045], the Progressive Association, and the Hong Kong Liberal Democratic Federation are fairly conservative, and their attitude toward the Chinese government is fairly moderate.

There are several findings in Table 3's data worthy of attention. First, except for the Support Alliance, none of the other political groups is readily recognized by the people. From 25.1 to 52.3 percent of the interviewees replied that they did not know a given group, and a considerable portion of them had not heard the opinions of these groups. The only exception was the Support Alliance, possibly because, immediately after the period of the 4 June Incident in 1989, it vigorously organized a large-scale popular demonstration and action against the Chinese government. Therefore, unlike the political systems and politicians, for the Hong Kong Chinese the political group is still something that is newly arising and thus unfamiliar. Therefore, the strength of the political groups, in the aspect of arousing mass support and establishing their position of political leadership, is woefully inadequate. Second, the opinions of those groups that advocate that an antagonistic stance be taken toward the Chinese government, and that also advocate democratic reform, obtained a fairly large proportion of the interviewees' agreement. However, the proportion of people who agree with the opinions of the fairly conservative and moderate groups is still higher than the

proportion of those who disagree with them. From this it can be observed that, although objectively we can, based on the attitude that these groups take toward the Chinese government and their position on the reform of democratization, make this attitude and position the criteria for differentiating these groups, to the Hong Kong Chinese the differences between these groups seem unimportant. As a whole, the Hong Kong Chinese seem to accept these groups indiscriminately. Finally, of all the groups listed in Table 3, only the (April 5th action) had a higher proportion of those who did not agree with their opinions than the proportion of those who did agree with them. Because this group, as compared with the other groups, opposed with strong speech and action the Chinese government, it is not accepted by the Hong Kong Chinese, precisely reflecting their pragmatic and moderate political orientation.

Some of these political groups claim to be political parties, or indicate that they intend to develop and become political parties. However, because they need to act carefully in the political sphere, none of them have formally taken the title of political party. The Hong Kong Chinese are basically quite supportive of the formation of political parties. In our survey 52 percent of the interviewees endorsed the idea of Hong Kong people organizing political parties. However, in Hong Kong's political culture the term "political party" has many negative connotations, and thus the Hong Kong Chinese have considerable reservations about the formation of political parties. For example, 43.6 percent of the interviewees agreed with the opinion that if political parties emerged in Hong Kong they would scramble for power and profit, thereby destabilizing Hong Kong's society (38 percent did not agree with this opinion). Moreover, although Hong Kong people in word give considerable support to the idea of forming political parties, only 20 percent of the interviewees replied that if political parties emerged in Hong Kong they would take part in or support the activities of these political parties; 39 percent of them thought that they would definitely not do so, and more than 28.5 percent replied that they "would look at the situation and then decide how to act."

Generally speaking, the Hong Kong Chinese support Hong Kong's present political system and governing structure. Their impression is that, on the whole, the politicians and political groups are not bad, with the exception of those groups whose relationship with the Chinese government is regarded as unduly close, or those groups that are regarded as too radical or too dangerous. In comparison with the support for the governing system and structure, the public's support for the politicians and political groups remains on the low side, particularly its support for the latter. In fact, although the Hong Kong Chinese have quite a good opinion of the politicians and political groups, the public's trust in them is still very low.

**Table 3. Public's Agreement With Opinions of Political Groups (figures are percentages)**

		Not Agree (D)	Agree (A)	Not Know the Group	Not Know the Group's Opinions	No Answer	A divided by D
1.	New Hong Kong League	5.6	14.1	48.7	21.0	10.5	2.6
2.	Association to Promote Democracy	7.2	26.7	30.8	22.6	12.8	3.7
3.	Support Alliance	19.4	43.1	11.3	12.6	13.6	2.2
4.	Reform Association	8.0	11.3	50.0	20.8	10.0	1.4
5.	Citizens Association	3.1	15.1	51.0	20.3	10.5	4.8
6.	Progressive Association	4.3	9.2	52.3	23.3	10.8	2.1
7.	The Meeting Point	5.9	14.8	48.7	19.2	11.3	2.5
8.	Hong Kong Affairs Society	6.1	16.1	43.3	23.6	10.8	2.6
9.	Hong Kong Association for Democracy and People's Livelihood	5.1	27.7	31.3	23.1	12.8	5.4
10.	Hong Kong Fund	4.6	12.3	50.0	21.8	11.3	2.7
11.	Hong Kong United Democratic Alliance	5.4	23.6	35.1	24.1	11.8	4.4
12.	Association to Build Hong Kong	4.6	6.4	60.3	19.0	9.7	1.4
13.	April 5th Action	25.1	19.5	25.1	17.7	12.6	0.8
14.	Association to Promote Democracy in Hong Kong	5.4	30.6	32.6	19.0	12.6	5.7
15.	Liberal Democratic Federation	4.1	18.2	46.9	19.0	11.8	4.4

[passage omitted] Although Hong Kong's political systems, leaders, and groups do not have specific bases of support in society, that does not mean that there are no political and social differences of opinion in Hong Kong. After the eighties Hong Kong was basically not troubled by some other common social contradictions, e.g., nationality, class, language, religion, subcultural, and regional contradictions. Hong Kong has a vigorously developing and open economic system and has a colonial government that is exercising conciliatory rule and avoiding as much as possible intervention in the affairs of Hong Kong's society. Under these circumstances, for most of the postwar period there has been almost no major social conflict in Hong Kong. Since the eighties began Hong Kong has encountered one problem after another: economic slowdown, increasing gap between rich and poor, the 1997 issue, society's growing dependence on government to solve social problems and to provide welfare and public services, and the government's falling prestige—all of which have caused a constant increase in social conflicts. These contradictions, which have escalated, showed up in our survey's findings. They reflect the Hong Kong people's different attitudes on some important social and political controversies:

**1. Trust in the three governments** The British and Chinese governments are increasingly taking part in Hong Kong's local affairs, thereby hampering the Hong Kong government's initiative. The public's degree of trust in the Hong Kong government is sliding down. People more and more feel that the Hong Kong government cannot effectively govern Hong Kong. The people's degree of trust in the British government is very low: only 20 percent of the interviewees expressed their trust in it. The public's mistrust of the Chinese government is especially serious, with only 10 percent of the interviewees indicating that they trust it.

**2. Contradictions between China and Hong Kong** Because the people mistrust the Chinese government, they easily give prominence to the conflict of interests between China and Hong Kong, and thus the common interests of the two are put in the back of their minds. In the survey, 49.7 percent of the interviewees thought that there was a conflict between China's interests and Hong Kong's interests, and only 29.7 of them were of the opposite opinion.

**3. Confrontation between China and Hong Kong** Currently Hong Kong's most divisive issue for political controversy is, without a doubt, the question of how the relationship between China and Hong Kong should be

handled. Even if the Hong Kong Chinese do not have a favorable opinion of China's politics, they do not embrace the idea of handling the relationship between China and Hong Kong by means of confrontation. Therefore, 75.1 percent of the interviewees oppose the carrying out of confrontation between the Hong Kong people and China's politics, with only 11.3 percent endorsing confrontation.

**4. Degree of satisfaction with the political situation** The Hong Kong Chinese are extremely divided over the question of whether they are satisfied with the present political situation. Of the interviewees 45.1 percent were satisfied, but 28.5 percent expressed dissatisfaction.

**5. Acceptance of the existing political system** Although 59 percent of the interviewees were willing to accept the existing political system, 25.9 percent of them did not completely accept it.

**6. Reform of the political system** As for their attitude toward reform of the political system, the Hong Kong Chinese can be divided into two groups of roughly equal numbers. Of the interviewees 43.1 percent hope to keep the existing political system, but 38.5 percent think it needs to be reformed. As for democratic reform, the great proportion (74.4 percent) of them think that the democratization of the political system should be an orderly, step-by-step process. Very few of them endorsed the idea that the pace of democratization should be very fast (6.2 percent) or very slow (8.4 percent). However, no matter what is the case, the Hong Kong Chinese are not optimistic about the prospects for the successful establishment in Hong Kong of a democratic political system because only 33.1 percent of the interviewees thought that Hong Kong had a very big chance to successfully promote a democratic political system.

**7. Satisfaction with the Hong Kong government's work** The public's evaluation of the Hong Kong government's work is becoming lower and lower. A little more than half (52.6 percent) of the interviewees thought that the work was no more than adequate, 15.1 percent criticized the work as bad, and only 22.8 percent thought the work was good.

**8. Satisfaction with the Basic Law** The people's attitude toward the Basic Law is closely connected with their attitude toward the Chinese government and their confidence in Hong Kong's future. Although they are not sure that the Basic Law will be truly implemented after 1997, for the most part they do not object to the making of all arrangements for the Basic Law. Generally speaking, the Hong Kong people's attitude toward the Basic Law is very contradictory. The survey found that 54.9 percent of the interviewees indicated that they did not know whether they were satisfied or that they were unwilling to give an opinion. On the other hand, 24.9 percent of them were dissatisfied with the Basic Law while 17.5 percent indicated their satisfaction with it.

**9. Degree of satisfaction with economic situation** Although, generally speaking, the Hong Kong Chinese

are satisfied with the present economic situation in Hong Kong, a number of them still think that they cannot obtain sufficient advantages from the economic successes. Of the interviewees 42.1 percent indicated satisfaction with Hong Kong's economic system, 18.5 percent were dissatisfied with it, and 26.9 percent thought it was only adequate.

**10. Degree of satisfaction with social welfare** Because the capability of Hong Kong's social groups to satisfy Hong Kong's social needs is declining, and the idea that social welfare is a citizen's right is constantly spreading, the people of Hong Kong are becoming more and more dependent on the public welfare provided by the Hong Kong government. On the whole, even if the welfare provided by the Hong Kong government and its role in welfare have constantly expanded over the past 20 years and more, this welfare still cannot satisfy all of society's needs. Therefore, only 22.8 percent of the interviewees felt that the situation in Hong Kong's social welfare was satisfactory, and this is a very normal phenomenon. A fairly large proportion (28.4 percent) of the interviewees were dissatisfied with the situation in social welfare, and as many as 33.6 percent thought that the situation was only adequate.

**11. Socioeconomic reform** Although the Hong Kong Chinese are more or less satisfied with the socioeconomic situation, they are not completely opposed to socioeconomic reform. As to the question of whether Hong Kong's socioeconomic situation should remain unchanged or be reformed, the interviewees' opinions were very different: 47.7 percent supported reform, but the proportion opposing reform was close to this figure, being 41.8 percent.

**12. Distribution of wealth** Over the past 10 years the phenomenon of economic inequality has worsened in Hong Kong, causing people to focus on the question of whether the distribution of wealth in society is just. In our survey the majority of the interviewees (56.4 percent) condemned as unjust the distribution of wealth in society, and only 26.4 percent felt that it was just.

**13. Class contradictions** Because the public more and more feels that the distribution of wealth is unjust, certain kinds of class consciousness quite naturally will emerge among the people. An unprecedentedly large proportion (69.7 percent) of the interviewees thought that the interests of people of different classes in Hong Kong conflict with each other; those holding the opposite opinion were much fewer, being only 18.2 percent. [passage omitted]

#### Campaign Expenditures of New Legislative Councilors

92CM0081C Hong Kong MING PAO in Chinese  
23 Oct 91 p 4

[Article: "Eighteen Directly Elected Legislative Councilors Each Spent Over HK\$180,000 in Campaign"]

[Text] In the election for the first session of the Legislative Council, 18 of those elected each averaged an expenditure of HK \$182,000 (Hong Kong dollars) in campaign expenses to win. Those who spent the most did not necessarily win; of seven candidates who spent over HK \$190,000, only three made it to the Legislative Council.

Yesterday I examined campaign expenditure reports of all the candidates at each district political affairs office. Of 54 candidates, 50 have reported the required data, those yet to do so include New Territories East's Liang Chia-cheng [4731 0857 2398], Huang Kuang-chung [7806 0562 1813] and Ts'ai Wen-hsing [5591 2429 5281], and Kowloon East's Li T'ing-chieh [2621 1694 0267].

Of these, Li T'ing-chieh yesterday had "checked in" with the election overseer, stating that some figures are not checked yet, and would turn in the material today. As for the New Territories East's Liang Chia-cheng, he seems to have "vanished," and an employee at the Shatien political affairs office said that after trying to find him for more than a month, he still has not been able to contact him.

Of the 49 candidates' campaign expenditures obtained by this paper (Victoria Island East's Chang You-hung [1728 2589 3163] still unavailable), seven candidates each spent over HK \$190,000 in the campaign, in order were New Territories East's Huang Hung-fa [7806 1347 4099] and Liu Hui-ch'ing [0491 1979 0615]; Victoria Island West's Ch'en Yu-hsiang [7115 3022 4382], Victoria Island East's Ch'eng Chieh-nan [4453 0094 0589], New Territories East's Liu Chiang-hua [0491 3068 5478], Kowloon Central's Liu Ch'ien-shih [0491 0578 4258] and New Territories North's Chang Han-chung [1728 3352 1813]; among them, Huang Hung-fa, Liu Hui-ch'ing and Liu Ch'ien-shih spent the most.

Spending by Huang Hung-fa and Liu Hui-ch'ing respectively was HK \$199,782 and HK \$199,046, which almost popped the cork; fortunately, it was not in vain as both won. Although Liu Chiang-hua of the same district spent nearly HK \$193,000, he was defeated. The intensity of the New Territories East races can be seen at a glance from the expenditures. Another losing candidate who has reported, Chien Sung-nien [4675 2646 1628], spent close to HK \$190,000 also. Campaign spending in New Territories East was tops in the nine districts.

The 18 winning Legislative Councilors averaged spending HK \$181,960 per person. Among them, the highest spender was New Territories East's Huang Hung-fa, with the least amount spent by New Territories North's Feng Chih-huo [7458 2535 3172].

Winning a seat yet resigning was Tai Chan-hua [2071 1455 5478] who also spent HK \$163,281 in the campaign; as with the other losers, this expenditure was for nothing.

There was a great gap in spending; the biggest spender was Huang Hung-fa who spent HK \$199,782, and the smallest was Li K'ai-hsia [2621 1980 0204], who only spent HK \$82,123, or loose change for Mr. Huang.

Roughly categorizing the various expenditure items, those who used advertising handouts spent the most, averaging HK \$81,600 plus per person on this; Kowloon East's Li Hua-ming [2621 5478 2494] topped the list with HK \$139,000. The one who spent the least was New Territories West's Huang Wei-hsien [7806 0251 6343] with about HK \$23,000.

Each candidate, on the average, spent HK \$23,800 for printing programs, more than HK \$22,900 for advertising posters and slogans, and across the board the spending was HK \$10,300.

Transportation costs included renting advertising vans, each candidate averaged HK \$7,000; food and beverages in support of the campaign cost each candidate an average HK \$7,000.

#### Commentary Urges Curbing Speculation Among Banks

HK2110092091 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0723 GMT 20 Oct 91

[Commentary by Yu Cheng (6735 2052): "Hong Kong Financial Authorities Should Adopt Measures To Check Heated Market Speculation Among Banks"]

[Text] The almost monopolistic speculation activities that have continued among banks in Hong Kong for several consecutive months have artificially slightly raised the Hong Kong dollar conversion rate and the system of pegging the Hong Kong dollar to the greenback is still being pounded. It is obviously necessary for the financial authorities to step up maintaining market order. It is believed that the Hong Kong Government has sufficient ability to stabilize the unbalanced bank market situation.

In the latter, larger part of this year, some big speculators have continuously speculated in foreign exchange and interest in the bank market, resulting in an unbalanced and chaotic situation among the banks. What is particularly noticeable is that individual banking groups have begun continuously selling U.S. dollars at the telegraphic transfer rate so as to raise the conversion rate of the Hong Kong dollar for a long time and make it deviate from the rate at which the Hong Kong dollar is pegged to the greenback, to impair the necessary normal regulatory function of the money market and to make the retail banks suffer seriously from Hong Kong dollar deposits. The banking and financial market has been greatly interfered with by man-made monopolistic speculation and has failed to give play to its desired effect in accommodating and raising funds.

## HONG KONG, MACAO

Although the financial authorities of the Hong Kong Government have occasionally taken part in transactions on the market to maintain order, market speculation has not diminished even slightly. They must, therefore, consider stepping up activities on the open market so as to suitably balance the existing unbalanced situation. Particularly in the last few months, the speculation activities made the conversion rate \$1 to HK\$7.74 [Hong Kong dollars] to HK\$7.75, deviating from the conversion rate of pegging \$1 to HK\$7.8 by about 500 to 600 points [as received]. This adversely affects the system of pegging the Hong Kong dollar to the greenback. In fact, if the conversion rate of the Hong Kong dollar is slightly high for a long time, the concept of the conversion rate of 7.8 can hardly continue.

On the other hand, if the Hong Kong dollar conversion rate is artificially made too high, after receiving Hong Kong dollar deposits, the retail banks will deposit them with the banknote issuing banks, indirectly redeem U.S. dollars from the foreign exchange funds, and resell U.S. dollars for Hong Kong dollar circulating funds. They will incur serious losses in the difference in the conversion rates. Similar banknote regulation activities affect quite considerably the system of pegging the Hong Kong dollar to the greenback. From this, it can be seen that individual big speculators' wanton speculation hits those depositing their money with banks, the banks, and even the Hong Kong Government to differing degrees. The financial authorities must pay close attention to the relevant situation and even adopt corresponding emergency measures.

The financial authorities need and have the ability to suitably and rationally maintain normal order in the bank market. After the foreign exchange funds administration is organized, it can handle local financial affairs in a concentrated way, including stabilizing the Hong Kong dollar conversion rate under the system of pegging the Hong Kong dollar to the greenback. The authorities can also intensively understand and analyze Hong Kong dollar futures and even U.S. dollar telegraphic transfers among the banks. Once there are overheated speculation activities, they must make the market operate in a relatively fair and normal situation by concluding bill transactions through foreign exchange funds and by directly buying and selling U.S. dollars at the telegraphic transfer rate.

After many years' efforts, the Hong Kong Government has established an effective system of pegging the Hong Kong dollar to the greenback and basically and vigorously curbed the speculation activities to stabilize the Hong Kong dollar conversion rate. The stable money conversion rate has made Hong Kong able to withstand tests and pounding in the political and economic incidents in the last eight years and more. The financial authorities must, therefore, curb the current speculation on the bank market to protect the relevant achievements.

Hong Kong's financial and economic work has developed quickly for many years and the major factor is that Hong Kong has a fair, rational, free, and elastic open market. If the unbalanced situation of the bank market continues, it will adversely affect finance and the economy as a whole.

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